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October 25, 2011

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 1/1/2012

Dear Ms. Driscoll:

This letter documents the 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, 2012 for the Contra Costa County Deputy Sheriffs' Association (DSA) and other assumed changes to the post retirement medical plan. Throughout this document medical refers to both health and dental costs. All costs presented herein tie to the County's GASB 45 liability that was developed using census data as of January 1, 2010 and beginning of year valuation results updated in a prior 7507 report dated February 9, 2011 reflecting the Contra Costa County Defenders' Association changes as of March 1, 2011. This was the most recently updated valuation result for the County and serves as the baseline for actuarial comparison of the current plan change costs/savings.

General Description of the Contra Costa County Deputy Sheriffs' Association Postretirement Medical Benefits Prior to Currently Negotiated Benefit Changes

For Employees Represented by the Contra Costa Deputy Sheriffs' Association:

Future County premium contributions are assumed to increase with trend as specified in Appendix A. All other rates and assumptions are as detailed in the most recent valuation report as of January 1, 2010.

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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 8,013 active employees with an average age of 46.5 years and average service of 11.4 years was used for this study. A separate file containing 5,251 retirees and survivors was provided for this study as well.

Baseline Valuation Results Before Plan Changes

Table 1 summarizes the Actuarial Accrued Liability (AAL) as of January 1, 2010 as calculated for all participants under the current benefit schedule (incorporating the changes to the Contra Costa County Defenders' Association as per the February 9, 2011 valuation update). The AAL is defined as the actuarial present value of benefits attributed to employee service rendered 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 2010. A discount rate of 6.32% is used throughout this analysis based on the County's decision to partially prefund the plan to a dedicated irrevocable trust.

Table 1
CCC Postemployment Health Benefits Plan
Actuarial Accrued Liability and Normal Cost as of January 1, 2010

Before Plan Changes	Actuarial Accrued Liability at a 6.32% Discount Rate	Normal Cost at a 6.32% Discount Rate
Active Employees	$465,762,000	$28,357,000
Retirees	560,817,000	0
Total	$1,026,579,000	$28,357,000

GASB Statement 45 requires the calculation of an Annual Required Contribution (ARC) consisting of the Normal Cost and a not greater than 30 year amortization of the Unfunded Actuarial Accrued Liability (UAAL). There is no requirement for CCC to actually fund the full ARC. 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 2010 under the current health benefit plan using the 6.32% discount rate assumption.

Table 2
CCC Postemployment Health Benefits Plan
Annual Required Contribution for Fiscal Year Ending 2010

Before Plan Changes	6.32% Discount Rate
Total AAL	$1,026,579,000
Assets	25,048,000
UAAL	$1,001,531,000
Annual Required Contribution	
Normal Cost	$28,357,000
30 Year Amortization of UAAL	33,384,000
ARC	$61,741,000

The amounts above include the liability associated with the subsidization of retiree premiums by active employees as required by GASB 45. This subsidization occurs because the under age 65 retiree medical costs are much higher than active employee costs but the retiree premium rates are the same as the active rates due to the pooling of the costs in the underwriting process. Approximately $116 million of the liability is caused by this rate subsidy, or 11.3% of the total liability under the 6.32% discount rate assumption.

Table 3 on page 5 shows the updated ARC for the fiscal year ending in 2010 under the new health benefit provisions proposed to begin as early as January 1, 2012 for employees represented by the Contra Costa County Deputy Sheriffs' Association and proposed for persons who retired from classifications that were represented at the time of retirement by the Contra Costa County Deputy Sheriffs' Association using the same 6.32% discount rate assumption.

Currently, Medical inflation is to be split 87% employer/13% employee based upon the Kaiser Bay Area rate. Here is a brief summary of the Contra Costa County Deputy Sheriffs' Association:

Active Employees

- Dual Coverage. Provide as of 01/01/12, that employees and retirees and dependents of employees and retirees can no longer have dual coverage in two County/District health or dental plans. This provision will apply to County and District employees and retirees who have spouses or partners who are either County or District employees or retirees.
- Premium Cost Sharing. Effective January 1, 2012, the County's monthly premium subsidy for the CalPERS Health Plans will be set at the December

2011 dollar amount paid by the County for the Kaiser Bay Area premiums plus:
  - Effective January 1, 2012, the County and the DSA will divide the increase in the Kaiser Bay Area premium 80% employer/20% employee; and
  - Effective January 1, 2013, the County and the DSA will divide the increase in the Kaiser Bay Area premium 75% employer/25% employee.

Retired Employees

- Dual Coverage. Provide as of 04/01/12, that employees and retirees and dependents of employees and retirees can no longer have dual coverage in two County/District health or dental plans. This provision will apply to County and District employees and retirees who have spouses or partners who are either County or District employees or retirees.
- Premium Cost Sharing. Effective January 1, 2012, the County's monthly premium subsidy for the CalPERS Health Plans will be set at the December 2011 dollar amount paid by the County for the Kaiser Bay Area premiums plus:
  - Effective April 1, 2012, the County and the DSA will divide the increase in the Kaiser Bay Area premium 80% employer/20% employee; and
  - Effective January 1, 2013, the County and the DSA will divide the increase in the Kaiser Bay Area premium 75% employer/25% employee.

Table 3
CCC Postemployment Health Benefits Plan
Annual Required Contribution for Fiscal Year Ending 2010

After Plan Changes	6.32% Discount Rate
Total AAL	$999,399,000
Assets	25,048,000
UAAL	$974,351,000
Annual Required Contribution	
Normal Cost	$27,452,000
30 Year Amortization of UAAL	32,478,000
ARC	$59,930,000

The plan changes for the Contra Costa County Deputy Sheriffs' Association created a **$27.2** million or **2.65%** decrease in the Actuarial Accrued Liability (AAL) and a **$1.8 million** or **2.93%** decrease in the calculated Annual Required Contribution. Future valuation results will change with demographic and cost updates but these changes to the most recent valuation as of January 1, 2010 do accurately measure the magnitude and direction of the plan change costs.

In undiscounted cash flow terms there will be decreased cash costs for the County as early as the June 1, 2012 calendar year for the postretirement medical plan based on these plan changes. The first 2-year total cash decrease from the plan change beginning in calendar 2012 is about $1.5 million, while the 25-year total cash decrease beginning in calendar 2012 is about $53.5 million. These are conservative estimates based on current plan participation and are subject to change upon open enrollment as the plan changes impact future retiree plan selections.

Appendix A provides the assumptions used for this actuarial analysis. This list includes 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. Appendix B provides a glossary of commonly used terms for postretirement medical valuations.

All valuation results reflect the use of the Entry Age Normal (EAN) actuarial cost method. This assumption also matches the cost method used by CCCERA for the pension valuation.

The current assumption is that annual actuarial valuations will be conducted although GASB 45 does allow for biennial valuations.

Please contact us at (619) 725-1769 should you have any questions.

Sincerely,

Michael W. Schionning, FSA, MAAA
Principal & Consulting Actuary

James A. Summers, FSA, MAAA
Director & Consulting Actuary

cc: Jacqueline Farren, Buck Consultants

APPENDIX A

Valuation Assumptions

Mortality Rates—RP-2000 Combined Healthy Mortality Tables set back two years.

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%.

Participation Assumption—98% active participation assumed upon retirement.

Medical Demographic Information—8,013 active employees and 5,251 retirees as of January 1, 2010.

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.

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

Medical Trend Rates by Calendar Year	
CY10	10%
CY11	9%
CY12	8%
CY13	7%
CY14	6%
CY15+	5%

Contra Costa County 2010 Rates and Contributions

The following Premium Rates and Increases vary by bargaining unit. For illustrative purposes the following R-1A rates for 2010 cover over 75% of the current retiree population.

		Total Monthly Premium	County Monthly Premium
Early Retirees (under 65)			
Kaiser	EE	$572.41	$444.39
	EF	$1,333.72	$1,035.42
Health Net HMO	EE	$781.71	$611.22
	EF	$1,917.59	$1,499.36
Health Net PPO	EE	$946.32	$544.25
	EF	$2,248.05	$1,292.88
CCHP - A			
	EE	$536.75	$499.18
	EF	$1,278.84	$1,189.32
CCHP - B	EE	$592.15	$515.17
	EF	$1,407.05	$1,224.13

Contra Costa County 2010 Rates and Contributions (continued)

Retirees (over65)		**Total Monthly Premium**	**County Monthly Premium**
Kaiser Cost	EE	$662.20	$618.26
Retiree	EF	$1,505.64	$1,379.35
Kaiser Senior	EE	$274.12	$261.26
Advantage	EE+1	$740.29	$705.57
Health Net Cost	EE	$436.65	$430.28
Retiree	EF	$873.30	$860.58
Health Net	EE	$408.88	$390.88
Seniority Plus	EE+1	$817.76	$781.76
Health Net Flex	EE	$730.55	$516.58
Net PPO	EE+1	$1,461.11	$1,033.06
CCHP - A	EE	$440.35	$409.53
Retiree	EE+1	$1,086.04	$1,010.02
CCHP - B	EE	$495.75	$431.30
Retiree	EE+1	$1,214.25	$1,056.40

Glossary of Terminology

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.