

**Meeting Date:** 9/17/2013

**Report Type:** Staff/Discussion

**Report ID:** 2013-00701

**Title: Authorize the City Treasurer to Contract with the California Employers' Retiree Benefit Trust Program for Pre-Funding the City's Long-Term Retiree Health Benefits**

**Location:** Citywide

**Issue:** Council action is required to authorize the City Treasurer to contract with the California Public Employees' Retirement System (CalPERS) to administer and invest the City's pre-funded long-term retiree benefits, and the execution of related documents and cash movements by the City Manager and City Treasurer to facilitate the program.

**Recommendation:** Pass a Resolution 1) authorizing the City Treasurer to execute a contract with CalPERS to pre-fund the City of Sacramento's long-term retiree health care and other post-employment benefits; 2) authorizing the City Treasurer to execute any legal and administrative documents on behalf of the City to contract with CalPERS; 3) authorizing the City Manager to establish an appropriation from committed fund balance to fund the CERBT; and 4) authorizing the City Manager to request and receive disbursements from the CERBT for payment of future retiree healthcare and other post-employment benefit obligations.

**Contact:** John Colville, Chief Investment Officer, (916) 808-8297, Office of the City Treasurer

**Presenter:** John Colville, Chief Investment Officer, (916) 808-8297, Office of the City Treasurer

**Department:** City Treasurer

**Division:** City Treasurer

**Dept ID:** 05001011

**Attachments:**

- 1-Description/Analysis
- 2-June 30, 2011 GASB 45 Actuarial Valuation
- 3-Resolution

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**City Attorney Review**

Approved as to Form  
Steve Itagaki  
9/9/2013 3:40:56 PM

**City Treasurer Review**

Reviewed for Impact on Cash and Debt  
Russell Fehr  
9/3/2013 10:26:42 AM

**Approvals/Acknowledgements**

Department Director or Designee: Russell Fehr - 9/6/2013 3:38:34 PM

## Description/Analysis

**Issue Detail:** The Government Accounting Standards Board (GASB) established GASB Statement Nos. 45 and 50 to address disclosure requirements and calculation standards for state and local governments on retiree healthcare and other postemployment benefits (OPEB). As a result, the City contracted with Bartel Associates, LLC for an actuarial report calculating the long-term cost associated with the City's OPEB. It was determined that based on actuarial standards the City's OPEB liability is \$440 million. To date, the City has funded the nearly \$10 million annual payments to the retirees on a pay-as-you-go basis and has not established a program or policy to address the funding of OPEB liabilities going forward as it has for its defined benefit pension programs administered by CalPERS and SCERS. The establishment of the proposed OPEB trust supports the City's approach in addressing its OPEB liabilities.

**Policy Considerations:** In accordance with the City's Administrative Policy No. 4102, the City Treasurer has approved the recommendation to contract with CalPERS on a sole source basis because the City will be able to invest assets in the California Employers' Retiree Benefit Trust (CERBT) Fund with over 350 other state and local municipalities to achieve an asset allocation that historically has generated an average annual rate of return in excess of 7%. Given the relative size of our expected contributions, the City would not have the capacity to diversify the portfolio to reduce risk and generate similar real returns. In addition the establishment of the OPEB trust utilizing the considerable experience and resources of CalPERS could help solidify the City's strong credit by the major rating agencies.

**Economic Impacts:** The economic impact is not quantifiable given the uncertainty of the contributions into the trust. Contributions will vary from year to year and future contributions will be determined based on available resources at fiscal year-ends. The OPEB liability of \$440 million calculated by Bartel Associates was based on a 4.25% discount rate. By contracting with CalPERS to manage the trust, the pooled investment would have an expected long-term rate of return in the range of 6.40%–7.60% based on our risk aversion, thereby reducing the City's OPEB liability.

**Environmental Considerations:** Not applicable

**Sustainability:** Not applicable

**Commission/Committee Action:** None

**Rationale for Recommendation:** The City's implementation of the GASB OPEB standards identified the large unfunded liability attributed to retiree healthcare expenses. The pay-as-you-go policy for paying the benefit is a significant burden on the City's General Fund and the costs will only increase over time. The implementation of an OPEB trust account will enable the City to set aside funds for future payments. These funds will earn a higher expected rate of return over time thereby potentially reducing the General Fund's contribution in the future.

**Financial Considerations:** CalPERS administers the California Employers' Retiree Benefit Trust (CERBT) and assesses each agency a 15 basis points fee rate (0.0015% of deposited funds) to cover the administrative and investment services. The fee rate is based on the actual cost of trust operations and can change annually.

**Emerging Small Business Development (ESBD):** Not applicable



**CITY OF SACRAMENTO  
RETIREE HEALTHCARE PLAN**

June 30, 2011 GASB 45 Actuarial Valuation  
Final Results

**Bartel Associates, LLC**  
John E. Bartel, President  
Catherine Wandro  
Harish Ganesan

September 26, 2012

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**BENEFIT SUMMARY**

	<b>Fire</b>	<b>Police &amp; Miscellaneous</b>
<ul style="list-style-type: none"> <li>■ Eligibility</li> </ul>	<ul style="list-style-type: none"> <li>■ Retire directly from the City:                             <ul style="list-style-type: none"> <li>● Age 50 &amp; 10 years City service, or</li> <li>● 30 years City service, or</li> <li>● Industrial disability, or</li> <li>● Death in line of duty</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li>■ Medical, Dental, &amp; Vision Benefit</li> </ul>	<ul style="list-style-type: none"> <li>■ Retiree-only lowest cost medical plan premium &amp; highest benefit dental plan premium, plus \$25</li> <li>■ 2011 = \$634.34/mo</li> <li>■ 2012 = \$693.90/mo</li> <li>■ <u>Service</u>      <u>%</u> <ul style="list-style-type: none"> <li>10              50%</li> <li>15              75%</li> <li>20+            100%</li> <li>ID&amp;D        100%</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Retiree only - \$300/mo</li> <li>■ Retiree + Dependents - \$365/mo</li> <li>■ <u>Service</u>      <u>%</u> <ul style="list-style-type: none"> <li>10              50%</li> <li>15              75%</li> <li>20+            100%</li> <li>ID&amp;D        100%</li> </ul> </li> </ul>



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**BENEFIT SUMMARY**

	<b>Fire</b>	<b>Police &amp; Miscellaneous</b>																				
<ul style="list-style-type: none"> <li>■ Pre 1/1/91 Deferred Retirement</li> </ul>	<ul style="list-style-type: none"> <li>■ None</li> </ul>	<ul style="list-style-type: none"> <li>■ Eligibility: Age 50 &amp; 10 years</li> <li>■ <u>Service</u>      <u>%</u> <ul style="list-style-type: none"> <li>10              50%</li> <li>20+            75%</li> </ul> </li> </ul>																				
<ul style="list-style-type: none"> <li>■ Surviving Spouse Benefit</li> </ul>	<ul style="list-style-type: none"> <li>■ Same medical and dental benefits continue to surviving spouse</li> </ul>																					
<ul style="list-style-type: none"> <li>■ Other OPEB</li> </ul>	<ul style="list-style-type: none"> <li>■ No City contribution for life insurance or Medicare Part B premiums</li> </ul>																					
<ul style="list-style-type: none"> <li>■ Pay-As-You-Go Costs (000's)</li> </ul>	<table border="1"> <thead> <tr> <th><u>Fiscal Year</u></th> <th><u>Cash</u></th> <th><u>Implied Subsidy</u></th> <th><u>Total</u></th> </tr> </thead> <tbody> <tr> <td>■ FY 2010/11</td> <td>\$9,230</td> <td>\$2,661</td> <td>\$11,891</td> </tr> <tr> <td>■ FY 2009/10</td> <td>\$8,910</td> <td>\$2,154</td> <td>\$11,064</td> </tr> <tr> <td>■ FY 2008/09</td> <td>\$8,416</td> <td>\$2,961</td> <td>\$11,377</td> </tr> <tr> <td>■ FY 2007/08</td> <td>\$8,002</td> <td>\$2,495</td> <td>\$10,497</td> </tr> </tbody> </table>	<u>Fiscal Year</u>	<u>Cash</u>	<u>Implied Subsidy</u>	<u>Total</u>	■ FY 2010/11	\$9,230	\$2,661	\$11,891	■ FY 2009/10	\$8,910	\$2,154	\$11,064	■ FY 2008/09	\$8,416	\$2,961	\$11,377	■ FY 2007/08	\$8,002	\$2,495	\$10,497	
<u>Fiscal Year</u>	<u>Cash</u>	<u>Implied Subsidy</u>	<u>Total</u>																			
■ FY 2010/11	\$9,230	\$2,661	\$11,891																			
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■ FY 2007/08	\$8,002	\$2,495	\$10,497																			



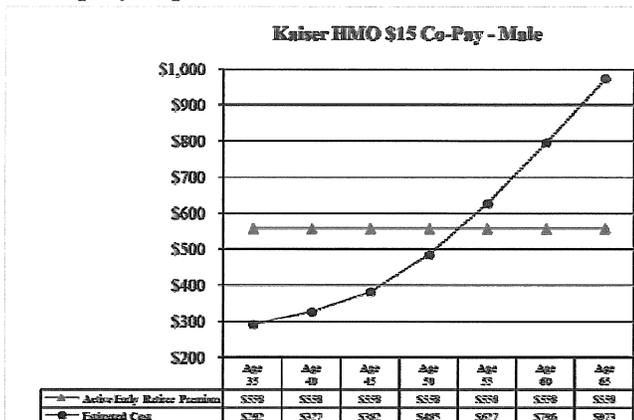
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## BENEFIT SUMMARY

■ Implied Subsidy

- Non-Medicare eligible retirees pay active rates instead of actual cost
- Active employee premiums subsidize retiree cost



- GASB 45 includes active “implied subsidy” with retiree cost
- Medical:
  - Value to age 65 for Medicare eligible retirees
  - Value for life for non Medicare eligible retirees
- Dental: no implied subsidy valued



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## BENEFIT SUMMARY

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**PARTICIPANT STATISTICS**

**Participant Statistics – June 30, 2011**

	Misc	Police	Fire	Total
■ Actives				
• Count	2,094	735	505	3,334
• Average Age	46.9	38.0	40.7	44.0
• Average City Service	13.2	12.2	12.5	12.9
• Average Salary	\$ 67,104	\$ 82,631	\$ 87,720	\$ 73,650
• Total Salary (\$000's)	140,516	60,733	44,298	245,548
■ Pre 1/1/91 Inactive Vested				
• Count	24	1	-	25
• Average Age	62.3	70.1	-	62.6
■ Retirees				
• Count - Medical	1,033	335	419	1,787
• Count - Dental	1,203	434	433	2,070
• Count - Total	1,754	549	507	2,810
• Average Age	69.4	65.7	69.3	68.6
• Average Retirement Age <sup>1</sup>	57.4	50.5	53.9	55.4

<sup>1</sup> Excludes 401 surviving spouses/beneficiaries



**PARTICIPANT STATISTICS**

**Participant Statistics – June 30, 2009**

	Misc	Police	Fire	Total
■ Actives				
• Count	2,597	709	546	3,852
• Average Age	45.2	36.6	39.8	42.9
• Average City Service	11.7	10.8	11.4	11.5
• Average Salary	\$ 65,986	\$ 80,504	\$ 85,730	\$ 71,457
• Total Salary (\$000's)	171,366	57,078	46,809	275,252
■ Pre 1/1/91 Inactive Vested				
• Count	33	2	-	35
• Average Age	60.0	64.7	-	60.3
■ Retirees				
• Count - Medical	1,091	360	423	1,874
• Count - Dental	1,326	464	445	2,235
• Count - Total	1,717	557	499	2,773
• Average Age	69.0	64.7	68.8	68.1
• Average Retirement Age	57.0	50.1	53.6	55.0



**PARTICIPANT STATISTICS**

**Retiree Medical and Dental Participation**

<b>Valuation Date</b>	<b>Medical Only</b>	<b>Dental Only</b>	<b>Both Medical &amp; Dental</b>	<b>Neither Medical nor Dental</b>	<b>Total</b>
<b>6/30/2009</b>	188	549	1,686	350	2,773
<b>6/30/2011</b>	309	592	1,478	431	2,810



**ACTUARIAL ASSUMPTIONS HIGHLIGHTS**

	<b>June 30, 2009 Valuation</b>	<b>June 30, 2011 Valuation</b>
■ Valuation Date	<ul style="list-style-type: none"> <li>■ June 30, 2009</li> <li>■ Fiscal Years 2009/10 &amp; 2010/11</li> </ul>	<ul style="list-style-type: none"> <li>■ June 30, 2011</li> <li>■ Fiscal Years 2011/12 &amp; 2012/13</li> </ul>
■ Discount Rate	<ul style="list-style-type: none"> <li>■ 4.25% – No pre-funding - Assets invested in City investments</li> <li>■ Sensitivity – 7.75%, pre-fund</li> </ul>	<ul style="list-style-type: none"> <li>■ 4.25% – No pre-funding - Assets invested in City investments</li> <li>■ Sensitivity – 7.25%, 6.75%, 6.25%, pre-fund with CERBT</li> </ul>
■ Mortality, Termination, Disability, Retirement	<ul style="list-style-type: none"> <li>■ CalPERS - 1997-2002 Experience Study</li> <li>■ SCERS – 6/30/09 Valuation Assumptions</li> </ul>	<ul style="list-style-type: none"> <li>■ CalPERS - 1997-2007 Experience Study</li> <li>■ SCERS – 6/30/11 Valuation Assumptions</li> <li>■ Post Retirement Mortality Projection Scale AA</li> </ul>



**ACTUARIAL ASSUMPTIONS HIGHLIGHTS**

■ Medical Trend	June 30, 2009 Valuation				June 30, 2011 Valuation	
	Increase from Prior Year				Increase from Prior Year	
	Non-Medicare		Medicare		Non-Medicare	Medicare
Year	HMO	PPO	HMO	PPO	Year	All Plans
2009	Actual 2009 Premiums				2009	n/a
2010	Actual 2010 Premiums				2010	n/a
2011	8.4%	9.0%	8.7%	9.3%	2011	Actual 2011 Premiums
2012	7.8%	8.3%	8.0%	8.5%	2012	Actual 2012 Premiums
2013	7.1%	7.5%	7.3%	7.7%	2013	9.0%                      9.4%
2014	6.5%	6.8%	6.6%	6.9%	2014	8.5%                      8.9%
2015	5.8%	6.0%	5.9%	6.1%	2015	8.0%                      8.3%
2016	5.2%	5.3%	5.2%	5.3%	2016	7.5%                      7.8%
2017+	4.5%	4.5%	4.5%	4.5%	2017	7.0%                      7.2%
					2018	6.5%                      6.7%
					2019	6.0%                      6.1%
					2020	5.5%                      5.6%
					2021+	5.0%                      5.0%



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**ACTUARIAL METHODS**

Method	June 30, 2009 Valuation	June 30, 2011 Valuation
■ Cost Method	■ Entry Age Normal	■ Same
■ Funding Policy	■ Pay-As-You-Go	■ Same
■ Amortization Method	■ Level percent of payroll	■ Same
■ Amortization Period	■ 30 years (closed) – 6/30/07 UAAL (26 years remaining on 6/30/11) ■ 20 years (closed) for plan changes ■ 15 years (closed) – subsequent gains/losses, assumption changes, and method changes ■ Maximum 30 years combined period allowed	
■ Implied Subsidy	■ Employer cost for allowing non-Medicare eligible retirees to participate at active rates ■ Medical - value an implied subsidy ■ Dental - none	



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**RESULTS**

**Actuarial Obligations**

**4.25% Discount Rate**

(Amounts in 000's)

CA LL-2-4

	6/30/07 Valuation	6/30/09 Valuation	6/30/11 Valuation
■ <b>Present Value of Benefits</b>			
• Actives	\$401,247	\$370,728	\$438,965
• Inactive Vested	1,673	1,122	769
• Retirees	<u>184,040</u>	<u>189,744</u>	<u>211,844</u>
• Total	<u>586,960</u>	<u>561,594</u>	<u>651,578</u>
■ <b>Actuarial Accrued Liability</b>			
• Actives	194,660	185,551	226,979
• Inactive Vested	1,673	1,122	769
• Retirees	<u>184,040</u>	<u>189,744</u>	<u>211,844</u>
• Total	<u>380,373</u>	<u>376,417</u>	<u>439,592</u>
■ <b>Actuarial Value of Assets</b>	-	-	-
■ <b>Unfunded AAL</b>	<u>380,373</u>	<u>376,417</u>	<u>439,592</u>
■ <b>Normal Cost</b>	16,377	15,115	18,272
■ <b>Pay-As-You-Go</b>	10,497	11,064	11,529



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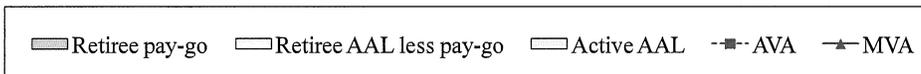
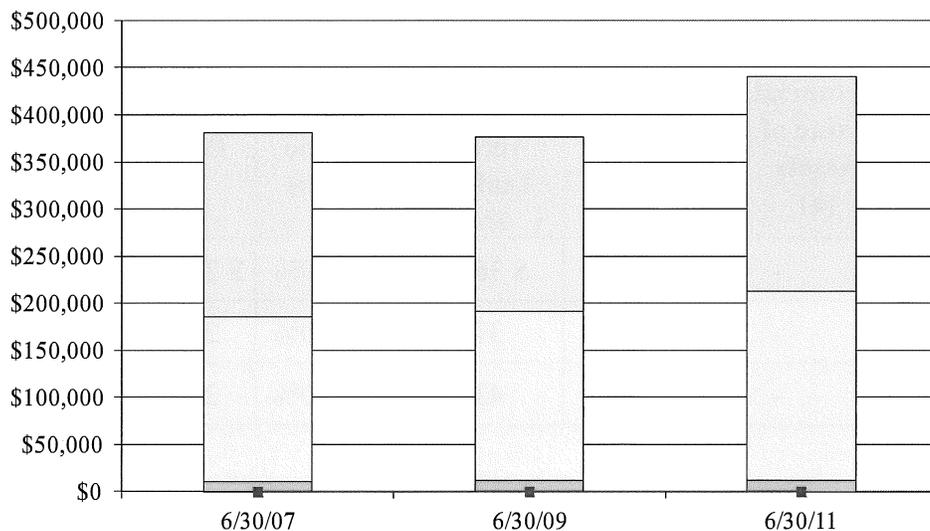
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**RESULTS**

**Historical Actuarial Accrued Liability**

(Amounts in 000's)



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**RESULTS**

CA LL-2-3

**Actuarial Gain/Loss Analysis**  
**4.25% Discount Rate**  
 (Amounts in 000's)

	NC %	AAL	(Assets)	UAAL
■ Actual on 6/30/09	5.5%	\$ 376,417	\$ -	\$ 376,417
■ Expected on 6/30/11	5.5%	417,669	(21,694)	395,975
■ Experience (Gains)/Losses				
• Premiums/Caps different than expected	(0.2%)	(19,261)	-	(19,261)
• Demographic & Other	0.5%	(26,761)	-	(26,761)
• Asset (Gain)/Loss	-	-	21,694	21,694
■ Assumption Changes				
• Post-Retirement Mortality Improvement	0.3%	18,700	-	18,700
• CalPERS 97-07 Experience Study	0.3%	14,317	-	14,317
• Medical Trend	<u>0.8%</u>	<u>34,928</u>	<u>-</u>	<u>34,928</u>
■ Total Changes	1.7%	21,923	21,594	43,617
■ Actual on 6/30/11	7.2%	439,592	-	439,592



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**RESULTS**

**Schedule of Funding Progress**  
**4.25% Discount Rate**  
 (Amounts in 000's)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
6/30/07	\$ -	\$ 380,373	\$ 380,373	0.0%	\$ 266,317	142.8%
6/30/09	-	376,417	376,417	0.0%	275,252	136.8%
6/30/11	-	439,592	439,592	0.0%	253,528	173.4%



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**RESULTS**

**Annual Required Contribution (ARC)**

**4.25% Discount Rate**

(Amounts in 000's)

CA LL-2-2

	6/30/07 Valuation		6/30/09 Valuation		6/30/11 Valuation	
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
<b>■ ARC - \$</b>						
• Normal Cost	\$16,377	\$16,909	\$15,115	\$15,606	\$18,272	\$18,866
• UAAL Amortization	<u>15,148</u>	<u>15,640</u>	<u>15,736</u>	<u>17,729</u>	<u>21,468</u>	<u>23,878</u>
• ARC (End of Year)	31,525	32,549	30,851	33,335	39,740	42,744
<b>■ Projected Payroll</b>	266,317	274,972	275,252	284,198	253,528	261,768
<b>■ ARC - % Total Payroll</b>						
• Normal Cost	6.1%	6.1%	5.5%	5.5%	7.2%	7.2%
• UAAL Amortization	<u>5.7%</u>	<u>5.7%</u>	<u>5.7%</u>	<u>6.2%</u>	<u>8.5%</u>	<u>9.1%</u>
• ARC	11.8%	11.8%	11.2%	11.7%	15.7%	16.3%



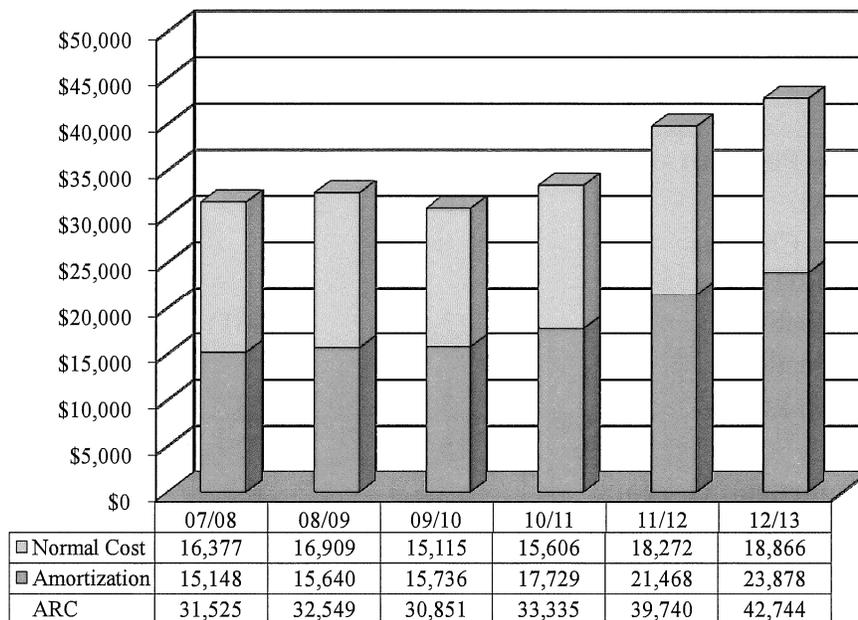
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**RESULTS**

**Historical Annual Required Contributions**

(Amounts in 000's)



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**RESULTS**

**Amortization Bases**

**4.25% Discount Rate**

(Amounts in 000's)

	6/30/09 Valuation		6/30/11 Valuation	
	6/30/09	6/30/10	6/30/11	6/30/12
■ <b>Outstanding Balance</b>				
• Initial UAAL 6/30/07	\$381,960	\$382,045	\$381,608	\$380,612
• Assumption Changes & (Gains)/Losses				
➤ 2009 Valuation	(47,799)	(46,130)	(44,142)	(42,657)
➤ 2011 Valuation	-	-	21,923	21,199
• Contribution Losses	<u>42,256</u>	<u>60,700</u>	<u>80,203</u>	<u>105,864</u>
• Total	376,417	396,615	439,592	465,018



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**RESULTS**

**Amortization Payments**

**4.25% Discount Rate**

(Amounts in 000's)

	6/30/09 Valuation		6/30/11 Valuation	
	2009/10	2010/11	2011/12	2012/13
■ <b>Amortization Payment - \$</b>				
• Initial UAAL	\$ 16,148	\$ 16,673	\$ 17,215	\$ 17,775
• Assumption Changes & (Gains)/Losses	-			
➤ 2009 Valuation	(3,551)	(3,481)	(3,334)	(3,443)
➤ 2011 Valuation	-	-	1,629	1,682
• Contribution Losses	<u>3,139</u>	<u>4,537</u>	<u>5,958</u>	<u>7,864</u>
• Total	15,736	17,729	21,468	23,878
■ <b>Average Amortization Years</b>	28.4	26.3	23.8	22.5



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**Estimated Net OPEB Obligation (NOO)**

(Amounts in 000's)

	6/30/07 Val		6/30/09 Val		6/30/11 Val	
	CAFR 2007/08	CAFR 2008/09	CAFR 2009/10	CAFR 2010/11	Est. 2011/12	Est. 2012/13
■ <b>NOO Beginning of Year</b>	\$0	\$21,028	\$42,256	\$60,700	\$80,203	\$105,864
• Annual OPEB Cost						
• ARC	31,525	32,549	30,851	33,335	39,740	42,744
• Interest on NOO	0	894	1,796	2,596	3,409	4,499
• Amortization of NOO	(0)	(838)	(3,139)	(4,537)	(5,958)	(7,864)
• Annual OPEB Cost	31,525	32,605	29,508	31,394	37,190	39,379
■ <b>Contributions</b>						
• Cash Benefit Payments <sup>2</sup>	(8,002)	(8,416)	(8,910)	(9,230)	(8,800)	(9,300)
• Implied Subsidy	(2,495)	(2,961)	(2,154)	(2,661)	(2,729)	(3,085)
• Trust Pre-Funding	-	-	-	-	-	-
• Total Contribution	(10,497)	(11,377)	(11,064)	(11,891)	(11,529)	(12,385)
■ <b>NOO End of Year</b>	21,028	42,256	60,700	80,203	105,864	132,857
■ <b>NOO Amort. Factor</b>	n/a	24.3854	13.4614	13.4614	13.4614	13.4614

<sup>2</sup> Estimated benefit payments shown for 2011/12 to 2012/13. Actual benefit payments should be used for OPEB footnote.



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**10-Year PayGo Projection Illustration**

4.25% Discount Rate

(Amounts in 000's)

FYE June 30,	Beginning of Year Net OPEB Obligation	ARC	Annual OPEB Cost (AOC)	Contribution			Payroll	ARC as % of Payroll	Contrib as % of Payroll
				Benefit Pmts	Pre- Fund	Total Contrib			
2012	\$ 80,203	\$39,740	\$37,190	\$11,529	\$ -	\$11,529	\$253,528	15.7%	4.5%
2013	105,864	42,744	39,379	12,385	-	12,385	261,768	16.3%	4.7%
2014	132,857	45,883	41,659	13,413	-	13,413	270,275	17.0%	5.0%
2015	161,104	49,151	44,030	14,620	-	14,620	279,059	17.6%	5.2%
2016	190,514	52,545	46,489	15,868	-	15,868	288,129	18.2%	5.5%
2017	221,135	56,067	49,038	17,199	-	17,199	297,493	18.8%	5.8%
2018	252,974	59,721	51,679	18,651	-	18,651	307,162	19.4%	6.1%
2019	286,002	63,504	54,413	20,151	-	20,151	317,144	20.0%	6.4%
2020	320,265	67,423	57,243	21,625	-	21,625	327,451	20.6%	6.6%
2021	355,882	71,487	60,175	23,291	-	23,291	338,094	21.1%	6.9%



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RESULTS

**Actuarial Obligations by Cash/Implied Subsidy**

**June 30, 2011**  
(Amounts in 000's)

	Cash Subsidy	Implied Subsidy	Total
■ <b>PVPB</b>			
• Actives	\$ 309,274	\$ 129,691	\$ 438,965
• Inactive Vested	665	104	769
• Retirees	<u>158,116</u>	<u>53,728</u>	<u>211,844</u>
• Total	468,055	183,523	651,578
■ <b>AAL</b>			
• Actives	154,916	72,063	226,979
• Inactive Vested	665	104	769
• Retirees	<u>158,116</u>	<u>53,728</u>	<u>211,844</u>
• Total	313,697	125,895	439,592
■ <b>Assets</b>	-	-	-
■ <b>Unfunded AAL</b>	313,697	125,895	439,592
■ <b>Normal Cost 2011/12</b>	13,156	5,116	18,272
■ <b>Pay-As-You-Go 2011/12</b>	8,800	2,729	11,529



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RESULTS

**Annual Required Contribution (ARC) by Cash/Implied Subsidy**

**2011/12 Fiscal Year**  
(Amounts in 000's)

	Cash Subsidy	Implied Subsidy	Total
■ <b>ARC - \$</b>			
• Normal Cost	\$ 13,156	\$ 5,116	\$ 18,272
• UAAL Amortization	<u>15,320</u>	<u>6,148</u>	<u>21,468</u>
• Total	28,476	11,264	39,740
■ <b>Projected Payroll</b>	253,528	253,528	253,528
■ <b>ARC - %</b>			
• Normal Cost	5.2%	2.0%	7.2%
• UAAL Amortization	<u>6.0%</u>	<u>2.4%</u>	<u>8.5%</u>
• Total	11.2%	4.4%	15.7%



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**RESULTS**

**Actuarial Obligations by Group**

**June 30, 2011**

(Amounts in 000's)

	Misc	Police	Fire	Total
■ <b>PVPB</b>				
• Actives	\$ 171,602	\$ 103,455	\$ 163,908	\$ 438,965
• Inactive Vested	749	20	-	769
• Retirees	<u>86,653</u>	<u>43,542</u>	<u>81,649</u>	<u>211,844</u>
• Total	259,004	147,017	245,557	651,578
■ <b>AAL</b>				
• Actives	106,402	48,994	71,583	226,979
• Inactive Vested	749	20	-	769
• Retirees	<u>86,653</u>	<u>43,542</u>	<u>81,649</u>	<u>211,844</u>
• Total	193,804	92,556	153,232	439,592
■ <b>Assets</b>	-	-	-	-
■ <b>Unfunded AAL</b>	193,804	92,556	153,232	439,592
■ <b>Normal Cost 2011/12</b>	6,672	4,665	6,935	18,272
■ <b>Pay-As-You-Go 2011/12</b>	5,684	2,142	3,703	11,529



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**RESULTS**

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**Annual Required Contribution (ARC) by Group**

**2011/12 Fiscal Year**

(Amounts in 000's)

	Misc	Police	Fire	Total
■ <b>ARC - \$</b>				
• Normal Cost	\$ 6,672	\$ 4,665	\$ 6,935	\$ 18,272
• UAAL Amortization	<u>9,465</u>	<u>4,520</u>	<u>7,483</u>	<u>21,468</u>
• Total	16,137	9,185	14,418	39,740
■ <b>Projected Payroll</b>	145,083	62,707	45,738	253,528
■ <b>ARC - %</b>				
• Normal Cost	4.6%	7.4%	15.2%	7.2%
• UAAL Amortization	<u>6.5%</u>	<u>7.2%</u>	<u>16.4%</u>	<u>8.5%</u>
• Total	11.1%	14.6%	31.5%	15.7%



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**RESULTS**

**Annual Required Contribution (ARC) by Group**  
**2012/13 Fiscal Year**  
 (Amounts in 000's)

	Misc	Police	Fire	Total
■ <b>ARC - \$</b>				
• Normal Cost	\$ 6,889	\$ 4,817	\$ 7,160	\$ 18,866
• UAAL Amortization	<u>10,527</u>	<u>5,028</u>	<u>8,323</u>	<u>23,878</u>
• Total	17,416	9,845	15,483	42,744
■ <b>Projected Payroll</b>	149,798	64,745	47,224	261,768
■ <b>ARC - %</b>				
• Normal Cost	4.6%	7.4%	15.2%	7.2%
• UAAL Amortization	<u>7.0%</u>	<u>7.8%</u>	<u>17.6%</u>	<u>9.1%</u>
• Total	11.6%	15.2%	32.8%	16.3%



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**RESULTS**

**Benefit Payment Projection by Cash/Implied Subsidy**  
 (Amounts in 000's)

Fiscal Year	Cash Subsidy	Implied Subsidy	Total
2011/12	\$ 8,800	\$ 2,729	\$ 11,529
2012/13	9,300	3,085	12,385
2013/14	9,910	3,503	13,413
2014/15	10,555	4,065	14,620
2015/16	11,239	4,629	15,868
2016/17	11,969	5,230	17,199
2017/18	12,737	5,914	18,651
2018/19	13,526	6,625	20,151
2019/20	14,349	7,276	21,625
2020/21	15,210	8,081	23,291



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**RESULTS**

**Discount Rate Sensitivity**

(Amounts in 000's)

	Valuation Results	Pre-Funding Examples		
		CERBT #1	CERBT #2	CERBT #3
■ <b>Discount Rate</b>	4.25%	7.25%	6.75%	6.25%
■ <b>PVPB on 6/30/11</b>	\$ 651,578	\$ 368,208	\$ 400,781	\$ 437,918
■ <b>Funded Status on 6/30/11</b>				
● AAL	439,592	287,666	306,936	328,221
● Assets	-	-	-	-
● <b>Unfunded AAL</b>	439,592	287,666	306,936	328,221
■ <b>2011/12 ARC</b>				
● Normal Cost	18,272	8,906	9,981	11,209
● UAAL Amortization	21,468	19,343	19,630	19,940
● Total ARC	39,740	28,249	29,611	31,149
● ARC as % of payroll	15.7%	11.1%	11.7%	12.3%
■ <b>Pay-As-You-Go 2011/12</b>	11,529	11,529	11,529	11,529



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**RESULTS**

**Full Pre-Funding Illustration**

**CERBT #1 - 7.25% Discount Rate**

(Amounts in 000's)

FYE June 30,	Beginning of Year Net OPEB Obligation	ARC	Annual OPEB Cost (AOC)	Contribution			Payroll	ARC as % of Payroll	Contrib as % of Payroll
				Benefit Pmts	Pre- Fund	Total Contrib			
2012	\$80,203	\$28,249	\$26,682	\$11,529	\$16,720	\$28,249	\$253,528	11.1%	11.1%
2013	78,635	29,167	27,246	12,385	16,782	29,167	261,768	11.1%	11.1%
2014	76,713	30,115	27,807	13,413	16,702	30,115	270,275	11.1%	11.1%
2015	74,405	31,094	28,363	14,620	16,474	31,094	279,059	11.1%	11.1%
2016	71,673	32,105	28,911	15,868	16,237	32,105	288,129	11.1%	11.1%
2017	68,479	33,148	29,450	17,199	15,949	33,148	297,493	11.1%	11.1%
2018	64,782	34,225	29,978	18,651	15,574	34,225	307,162	11.1%	11.1%
2019	60,534	35,338	30,491	20,151	15,187	35,338	317,144	11.1%	11.1%
2020	55,688	36,486	30,988	21,625	14,861	36,486	327,451	11.1%	11.1%
2021	50,190	37,672	31,466	23,291	14,381	37,672	338,094	11.1%	11.1%



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## Actuarial Certification

This report presents the City of Sacramento Retiree Healthcare Plan ("Plan") June 30, 2011 actuarial valuation. The purpose of this valuation is to:

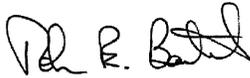
- Determine the Governmental Accounting Standards Board Statement Nos. 43 and 45 June 30, 2011 Benefit Obligations,
- Determine the Plan's June 30, 2011 Funded Status, and
- Calculate the 2011/12 and 2012/13 Annual Required Contributions.

The report provides information intended for reporting under GASB 43 and 45, but may not be appropriate for other purposes. Information provided in this report may be useful to the City for the Plan's financial management. Future valuations may differ significantly if the Plan's experience differs from our assumptions or if there are changes in Plan design, actuarial methods or actuarial assumptions. The project scope did not include an analysis of this potential variation.

The valuation is based on Plan provisions and participant data provided by the City as summarized in this report, which we relied on and did not audit. We reviewed the participant data for reasonableness.

To the best of our knowledge, this report is complete and accurate and has been conducted using generally accepted actuarial principals and practices. Additionally, in our opinion, actuarial methods and assumptions comply with GASB 43 and 45. As members of the American Academy of Actuaries meeting the Academy Qualification Standards, we certify the actuarial results and opinions herein.

Respectfully submitted,



John E. Bartel, ASA, MAAA, FCA  
President  
Bartel Associates, LLC  
September 26, 2012



Catherine A. Wandro, ASA, MAAA  
Assistant Vice President  
Bartel Associates, LLC  
September 26, 2012



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## Other Issues

### GASB Accounting Rules

#### ■ Pension Accounting:

- GASB 68, Accounting for Employers, approved June 25, 2012
- Replaces GASB 27
- Effective 2014/15

#### ■ Major Issues:

- Unfunded liability on balance sheet
- Expense calculation disconnected from contribution calculation
- Discount rate is municipal bond rate when assets not sufficient to pay benefits
- Immediate recognition of AAL for plan changes
- Deferred recognition of changes in AAL for gains and losses and assumption changes over active and inactive members' average future working lifetime
- Deferral of investment gains and losses over 5 years
- Disclosure of asset allocation and expected real rates of return for each asset class
- Entry age normal cost method

#### ■ OPEB Accounting:

- Exposure draft expected August 2013
- Final statement expected June 2014



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## CA Public Employees' Pension Reform Act of 2013

- **New Members** – Generally, employees hired after 1/1/13 who did not previously participate in a reciprocal retirement system
- **Pension Formulas for New Members**
  - Miscellaneous – 2.5% @ 67; earliest svc. ret. age 52
  - Safety – 2% @ 57, 2.5% @ 57, and 2.7% @ 57; earliest svc. ret. age 50
- **Plan Compensation Limit for New Members**
  - 100% of Social Security Wage Base on 1/1/13 (120% for members not in Social Security) for defined benefit plans, increasing annually with CPI
  - Employer can provide a defined contribution plan for pay above the limit
- **Final Compensation for New Members**
  - Highest average plan compensation over 36 consecutive months
  - Plan compensation is the normal monthly rate of pay or base pay
- **Cost Sharing**
  - Target of 50% of total normal cost
  - New members must pay greater of 50% of total normal cost or bargained amount if higher
  - Employers cannot pay any part of new member required employee contributions
  - Employer may impose current employees pay 50% of total normal cost (limited to certain amounts) if not agreed through collective bargaining by 1/1/18



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## CA Public Employees' Pension Reform Act of 2013

- **Benefit Enhancements**
  - Benefit enhancements after 1/1/13 apply only to future service
  - No limits on COLAs
- **Safety Industrial Disability**
  - Increase in benefit for those under 50 with long service
  - Trial period ending 1/1/18
- **Supplemental Defined Benefit Pension Plans**
  - Employer cannot adopt a supplemental defined benefit pension plan after 1/1/13
  - New employees cannot participate in existing plan
- **Pension Holidays**
  - Total employer and employee contributions cannot be less than the normal cost
- **Air Time Service Purchase**
  - Eliminated for all members 1/1/13
- **OPEB**
  - An employer cannot provide better vesting schedule to unrepresented employees as is provided to represented employees
  - Law is unclear whether applies:
    - Only to vesting schedule or also to the amount of benefit provided
    - To new members, existing members, and/or current retirees



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**EXHIBITS**

<u>Topic</u>	<u>Page</u>
Premiums	E- 1
Data Summary	E- 7
Actuarial Assumptions	E-27
Definitions	E-34



**EXHIBITS**

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**PREMIUMS**

**2011 Monthly Medical Premiums**  
**Actives and Non Medicare Retirees**

Medical Plan	Co-Pay	Single	2-Party	Family
Kaiser HMO	\$15	\$557.88	\$1,115.76	\$1,483.98
	\$25	529.86	1,059.72	1,409.46
Health Net HMO	\$15	587.72	1,177.38	1,556.50
	\$25	563.96	1,129.76	1,493.46
Health Net PPO Nonsubsidized	\$15	1,136.44	2,281.26	3,022.74
Health Net PPO Subsidized	\$15	778.02	1,556.04	2,076.64
Health Net EPO Subsidized	\$15	587.72	1,177.38	n/a



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**PREMIUMS**

**2011 Monthly Medical Premiums**  
**Medicare Retirees**

Medical Plan	Co-Pay	Single	2-Party	Family
Kaiser Senior Advantage	\$15	\$312.92	\$594.54	\$938.76
	\$25	302.90	575.50	908.68
Kaiser Medicare COB	\$15	725.80	1,451.60	n/a
Health Net Seniority Plus	\$15	287.44	584.88	n/a
	\$25	280.48	570.96	n/a
Health Net Medicare COB	\$15	473.62	940.46	n/a
	\$25	452.28	904.66	n/a
Health Net PPO Medicare COB	\$15	600.02	1,200.16	n/a



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**PREMIUMS**

**2012 Monthly Medical Premiums  
Actives and Non Medicare Retirees**

Medical Plan	Co-Pay	Single	2-Party	Family
Kaiser HMO	\$15	\$617.44	\$1,234.88	\$1,642.42
	\$25	586.48	1,172.96	1,560.06
Health Net HMO	\$15	654.08	1,310.32	1,732.24
	\$25	627.64	1,257.32	1,662.08
Health Net PPO Nonsubsidized	\$15	1,264.74	2,538.82	3,364.02
Health Net PPO Subsidized	\$15	864.38	1,728.78	2,307.06
Health Net EPO Subsidized	\$15	654.08	1,310.32	n/a



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**PREMIUMS**

**2012 Monthly Medical Premiums  
Medicare Retirees**

Medical Plan	Co-Pay	Single	2-Party	Family
Kaiser Senior Advantage	\$15	\$313.00	\$594.68	\$938.30
	\$25	302.98	575.64	908.22
Kaiser Medicare COB	\$15	725.68	1,451.36	n/a
Health Net Seniority Plus	\$15	343.78	697.56	n/a
	\$25	335.46	680.92	n/a
Health Net Medicare COB	\$15	497.30	987.48	n/a
	\$25	474.92	949.46	n/a
Health Net PPO Medicare COB	\$15	696.92	1,394.00	n/a



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**PREMIUMS**

**2011 Monthly Dental Premiums**

**Actives**

<b>Dental Plan</b>	<b>Single</b>	<b>2-Party</b>	<b>Family</b>
Delta Dental DPO	\$ 53.16	\$ 100.98	\$ 134.46
Delta Care DMO	23.98	45.56	60.64

**Retirees**

<b>Dental Plan</b>	<b>Single</b>	<b>2-Party</b>	<b>Family</b>
Delta Dental DPO	\$ 51.46	\$ 91.42	\$ 159.40
Delta Care DMO	23.98	45.56	60.64



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**PREMIUMS**

**2012 Monthly Dental Premiums**

**Actives**

<b>Dental Plan</b>	<b>Single</b>	<b>2-Party</b>	<b>Family</b>
Delta Dental DPO	\$ 53.16	\$ 100.98	\$ 134.46
Delta Care DMO	24.70	46.94	62.46

**Retirees**

<b>Dental Plan</b>	<b>Single</b>	<b>2-Party</b>	<b>Family</b>
Delta Dental DPO	\$ 51.46	\$ 91.42	\$ 159.40
Delta Care DMO	24.70	46.94	62.46



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**DATA SUMMARY**

**Medical Plan Participation**  
**Non-Waived Participants**

Plan	Co-Pay	Actives	Retirees	
			< 65	≥ 65
Kaiser HMO	\$15	22%	36%	56%
	\$25	31%	20%	6%
Health Net HMO	\$15	22%	28%	31%
	\$25	25%	11%	2%
Health Net PPO Nonsubsidized	\$15	0%	1%	1%
Health Net PPO Subsidized	\$15	0%	4%	4%
Health Net EPO	\$15	0%	0%	0%
Total		100%	100%	100%



**DATA SUMMARY**

**Current Active Medical Coverage**

Medical Plan	Co-Pay	Single	2-Party <sup>3</sup>	Family	Waived	Total
Kaiser HMO	\$15	220	103	235	-	558
	\$25	332	136	339	-	807
Health Net HMO	\$15	197	85	280	-	562
	\$25	221	118	299	-	638
Health Net PPO <sup>4</sup>	\$15	-	2	-	-	2
Waived		-	-	-	767	767
Total		970	444	1,153	767	3,334

<sup>3</sup> Includes 145 participants with non-spouse dependant coverage

<sup>4</sup> Out of area plan



**DATA SUMMARY**

**Dental Coverage**

**Actives**

<b>Dental Plan</b>	<b>Single</b>	<b>2-Party</b>	<b>Family</b>	<b>Waived</b>	<b>Total</b>
Delta Dental DPO	850	521	980	-	2,351
Delta Care DMO	92	52	157	-	301
Waived	-	-	-	682	682
<b>Total</b>	<b>942</b>	<b>573</b>	<b>1,137</b>	<b>682</b>	<b>3,334</b>

**Retirees**

<b>Dental Plan</b>	<b>Single</b>	<b>2-Party</b>	<b>Family</b>	<b>Waived</b>	<b>Total</b>
Delta Dental DPO	953	855	158	-	1,966
Delta Care DMO	61	35	8	-	104
Waived	-	-	-	740	740
<b>Total</b>	<b>1,014</b>	<b>890</b>	<b>166</b>	<b>740</b>	<b>2,810</b>



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**DATA SUMMARY**

**Current Retiree Medical Coverage – Pre 65**

<b>Medical Plan</b>	<b>Co-Pay</b>	<b>Single</b>	<b>2-Party</b>	<b>Family</b>	<b>Waived</b>	<b>Total</b>
Kaiser HMO Premium	\$15	163	50	11	-	224
Kaiser HMO Standard	\$25	93	29	6	-	128
Kaiser Hawaii HMO	\$15	2	-	-	-	2
Kaiser Oregon HMO	\$15	2	-	-	-	2
Health Net HMO Premium	\$15	124	38	10	-	172
Health Net HMO Standard	\$25	37	28	6	-	71
Health Net PPO	\$15	3	1	-	-	4
Health Net Subsidized PPO	\$15	19	3	-	-	22
Waived		-	-	-	503	503
<b>Total</b>		<b>443</b>	<b>149</b>	<b>33</b>	<b>503</b>	<b>1,128</b>



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**DATA SUMMARY**

**Current Retiree Medical Coverage – Post 65**

Medical Plan	Co-Pay	Single	2-Party	Family	Waived	Total
Kaiser HMO Premium	\$15	411	220	5	-	636
Kaiser HMO Standard	\$25	32	36	1	-	69
Kaiser Colorado HMO	\$15	3	-	-	-	3
Kaiser Hawaii HMO	\$15	1	1	-	-	2
Kaiser Oregon HMO	\$15	4	-	-	-	4
Kaiser Medicare COB Premium	\$15	5	-	-	-	5
Health Net HMO Premium	\$15	200	100	2	-	302
Health Net HMO Standard	\$25	14	10	-	-	24
Health Net Medicare COB Premium	\$15	45	13	-	-	58
Health Net Medicare COB Standard	\$25	2	3	-	-	5
Health Net PPO COB Non-Subsidized	\$15	7	-	-	-	7
Health Net PPO COB Subsidized	\$15	41	2	-	-	43
Health Net EPO	\$15	2	2	-	-	4
Waived		-	-	-	520	520
<b>Total</b>		<b>767</b>	<b>387</b>	<b>8</b>	<b>520</b>	<b>1,682</b>



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**DATA SUMMARY**

**Retiree Medical Plan Coverage by Age**  
**Miscellaneous**

Age	Single	2-Party	Family	Waived	Total
Under 50	5	1	-	17	23
50-54	25	5	1	37	68
55-59	85	24	2	102	213
60-64	131	46	4	191	372
65-69	136	67	3	127	333
70-74	101	56	-	90	247
75-80	86	39	2	65	192
80-85	82	34	-	46	162
85 & Over	87	11	-	46	144
<b>Total</b>	<b>738</b>	<b>283</b>	<b>12</b>	<b>721</b>	<b>1,754</b>
<b>Average Age</b>	<b>70.9</b>	<b>70.5</b>	<b>64.1</b>	<b>67.4</b>	<b>69.4</b>



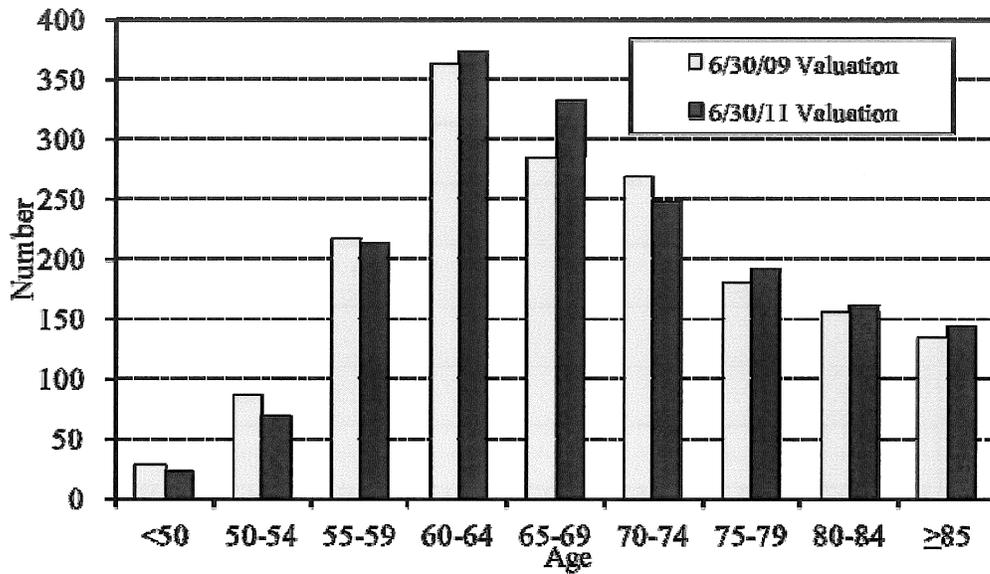
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DATA SUMMARY

**Retiree Age Distribution  
Miscellaneous**



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DATA SUMMARY

**Retiree Medical Plan Coverage by Age  
Police**

Age	Single	2-Party	Family	Waived	Total
Under 50	14	-	-	23	37
50-54	14	6	2	29	51
55-59	23	7	4	38	72
60-64	43	14	4	41	102
65-69	42	31	2	40	115
70-74	29	26	1	23	79
75-80	23	11	-	11	45
80-85	10	7	-	5	22
85 & Over	16	6	-	4	26
Total	214	108	13	214	549
Average Age	67.3	69.7	60.9	62.3	65.7



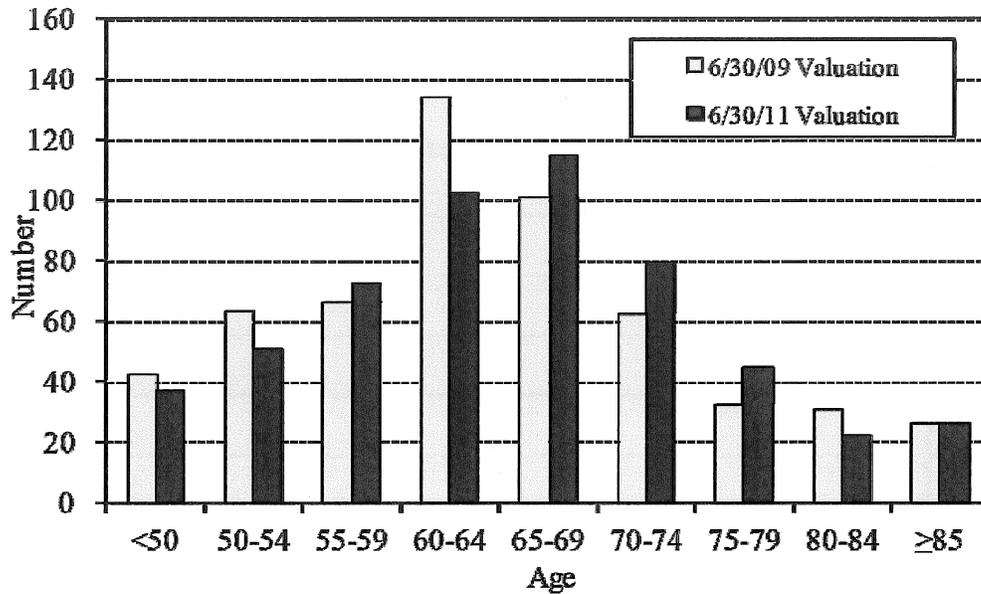
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**DATA SUMMARY**

**Retiree Age Distribution**  
**Police**



**DATA SUMMARY**

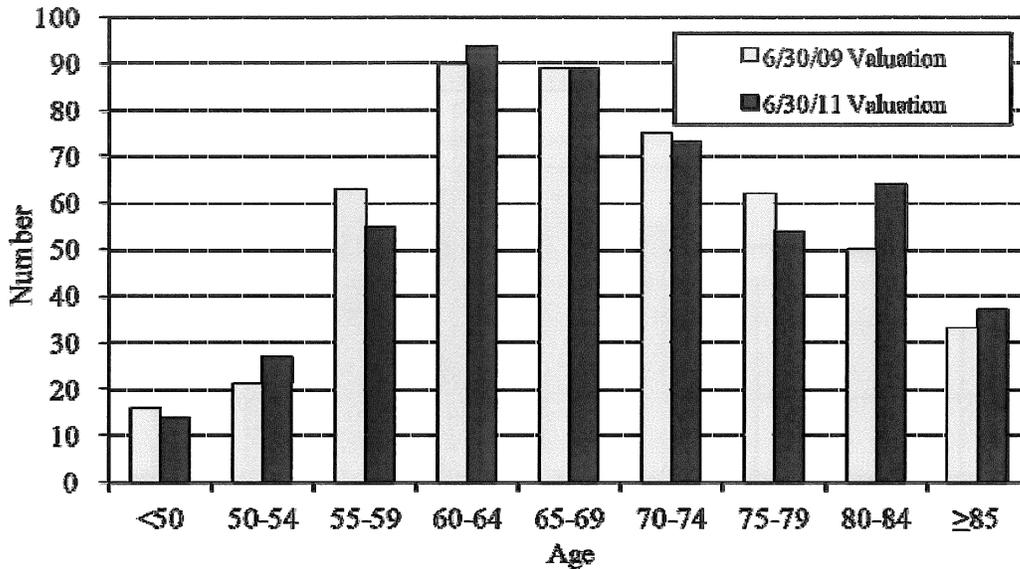
**Retiree Medical Plan Coverage by Age**  
**Fire**

Age	Single	2-Party	Family	Waived	Total
Under 50	8	2	1	3	14
50-54	14	3	4	6	27
55-59	34	9	7	5	55
60-64	47	32	4	11	94
65-69	42	31	-	16	89
70-74	34	29	-	10	73
75-80	26	15	-	13	54
80-85	31	18	-	15	64
85 & Over	22	6	-	9	37
Total	258	145	16	88	507
Average Age	69.0	70.0	57.2	71.3	69.3



**DATA SUMMARY**

**Retiree Age Distribution**  
**Fire**



September 26, 2012

E-17



**DATA SUMMARY**

**Actives by Age and Service**  
**Miscellaneous**

Age	City Service							Total
	< 1	1-4	5-9	10-14	15-19	20-24	≥ 25	
< 25	2	11	3	-	-	-	-	16
25-29	5	32	47	6	-	-	-	90
30-34	9	43	87	30	5	-	-	174
35-39	8	65	110	56	10	4	-	253
40-44	3	63	101	76	41	26	8	318
45-49	5	33	107	74	49	68	40	376
50-54	3	39	84	72	54	89	78	419
55-59	2	27	52	46	31	60	88	306
60-64	1	9	23	16	17	23	23	112
≥ 65	-	3	5	11	3	2	6	30
Total	38	325	619	387	210	272	243	2,094



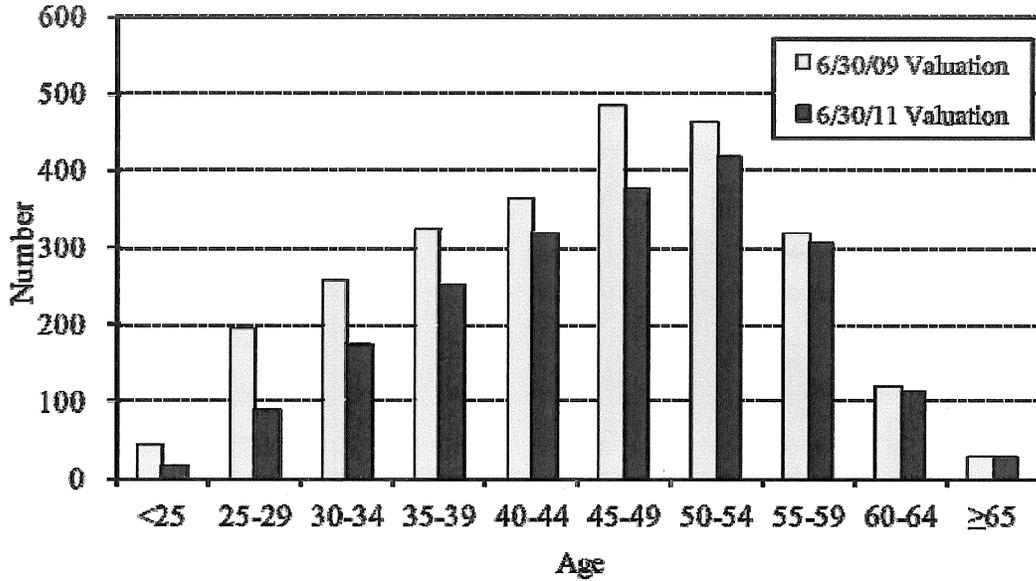
September 26, 2012

E-18



DATA SUMMARY

**Active Age Distribution**  
**Miscellaneous**



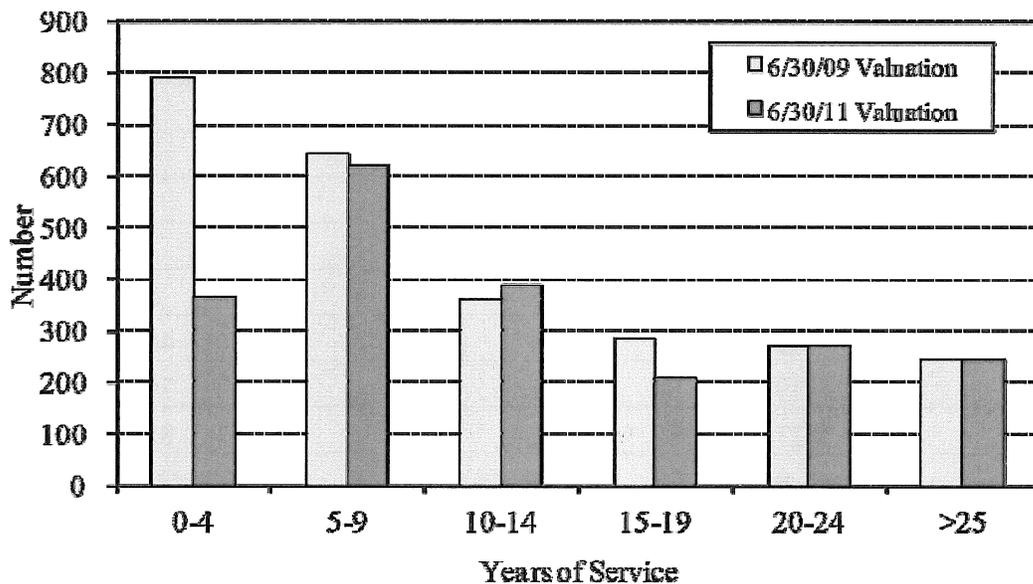
September 26, 2012

E-19



DATA SUMMARY

**Active Service Distribution**  
**Miscellaneous**



September 26, 2012

E-20



**DATA SUMMARY**

**Actives by Age and Service**  
**Police**

Age	City Service							Total
	< 1	1-4	5-9	10-14	15-19	20-24	≥ 25	
< 25	1	2	5	-	-	-	-	8
25-29	-	62	37	5	-	-	-	104
30-34	-	36	105	38	2	-	-	181
35-39	-	5	55	69	20	-	-	149
40-44	-	4	26	45	48	26	-	149
45-49	-	1	7	7	18	45	24	102
50-54	-	-	1	2	3	16	17	39
55-59	-	-	-	-	-	1	1	2
60-64	-	-	-	-	1	-	-	1
≥ 65	-	-	-	-	-	-	-	-
Total	1	110	236	166	92	88	42	735



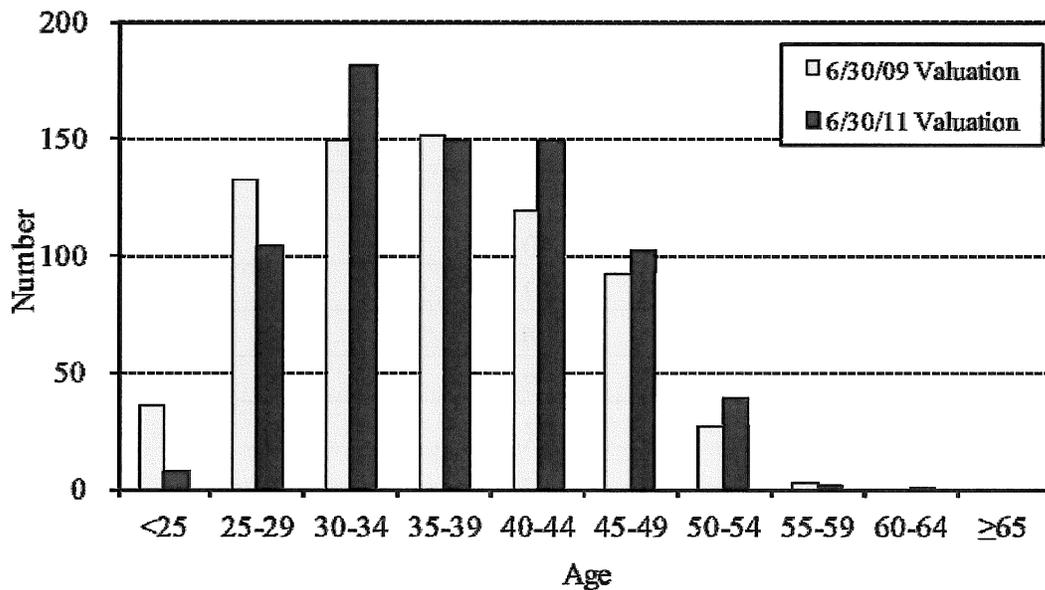
September 26, 2012

E-21



**DATA SUMMARY**

**Active Age Distribution**  
**Police**



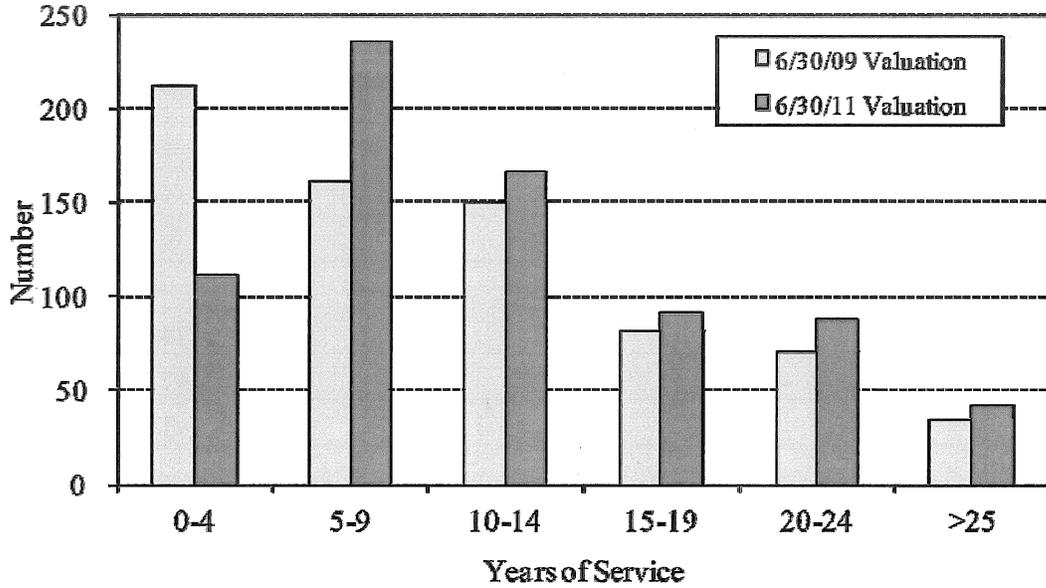
September 26, 2012

E-22



**DATA SUMMARY**

**Active Service Distribution**  
**Police**



September 26, 2012

E-23



**DATA SUMMARY**

**Actives by Age and Service**  
**Fire**

Age	City Service							Total
	< 1	1-4	5-9	10-14	15-19	20-24	≥ 25	
< 25	-	-	-	-	-	-	-	-
25-29	2	12	11	-	-	-	-	25
30-34	1	33	64	5	-	-	-	103
35-39	-	12	50	40	12	-	-	114
40-44	1	5	27	32	51	8	-	124
45-49	-	1	7	6	34	23	9	80
50-54	-	3	1	3	5	27	7	46
55-59	-	-	-	1	4	3	4	12
60-64	-	-	-	-	-	-	-	-
≥ 65	-	-	-	-	-	-	1	1
<b>Total</b>	<b>4</b>	<b>66</b>	<b>160</b>	<b>87</b>	<b>106</b>	<b>61</b>	<b>21</b>	<b>505</b>



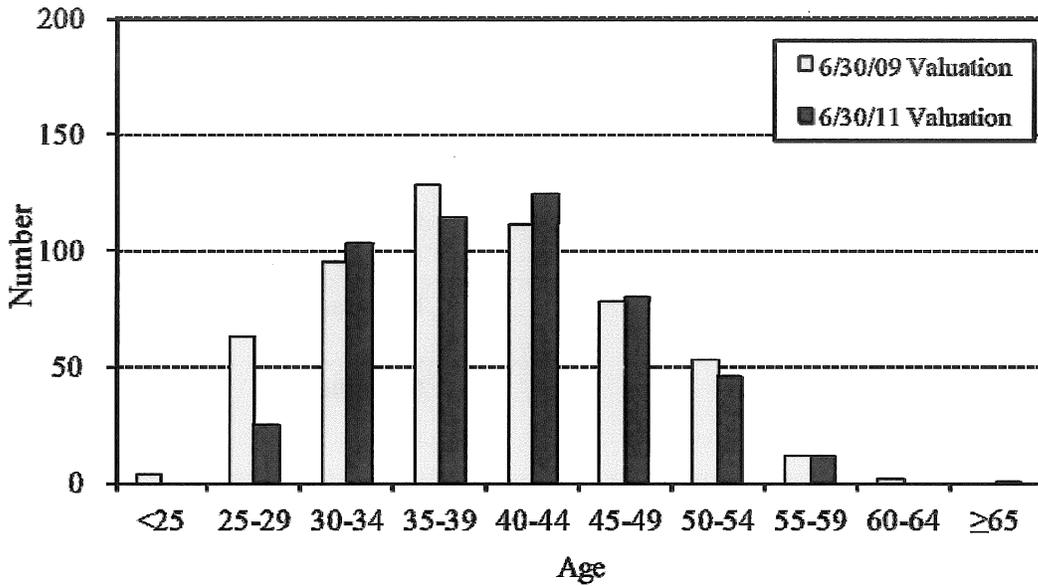
September 26, 2012

E-24



DATA SUMMARY

**Active Age Distribution**  
**Fire**



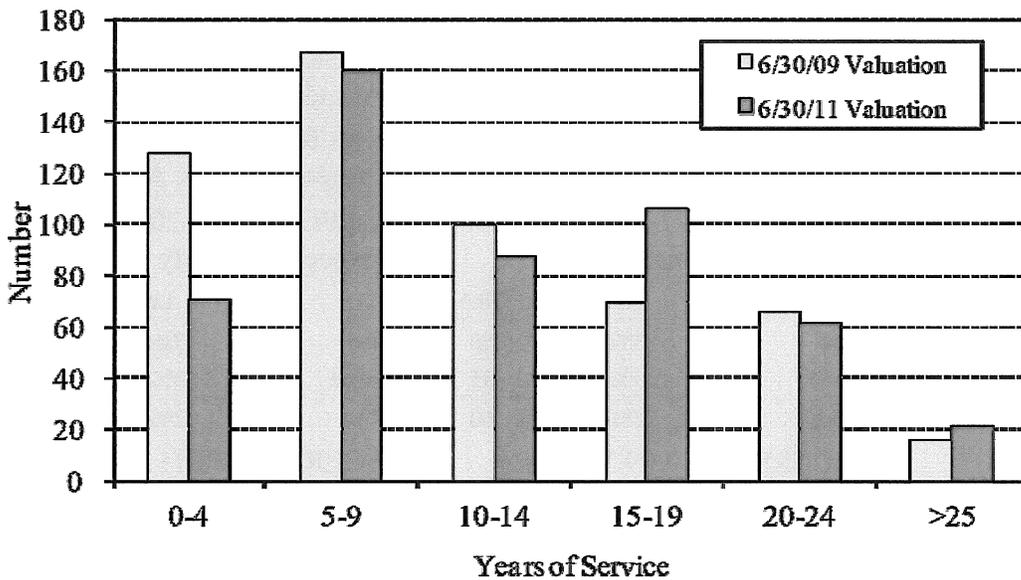
September 26, 2012

E-25



DATA SUMMARY

**Active Service Distribution**  
**Fire**



September 26, 2012

E-26



**ACTUARIAL ASSUMPTIONS**

	<b>June 30, 2009 Valuation</b>	<b>June 30, 2011 Valuation</b>
■ Valuation Date	<ul style="list-style-type: none"> <li>■ June 30, 2009</li> <li>■ Fiscal Years 2009/10 &amp; 2010/11</li> </ul>	<ul style="list-style-type: none"> <li>■ June 30, 2011</li> <li>■ Fiscal Years 2011/12 &amp; 2012/13</li> </ul>
■ Discount Rate	<ul style="list-style-type: none"> <li>■ 4.25% – No pre-funding - Assets invested in City investments</li> <li>■ Sensitivity – 7.75%, pre-fund</li> </ul>	<ul style="list-style-type: none"> <li>■ 4.25% – No pre-funding - Assets invested in City investments</li> <li>■ Sensitivity – 7.25%, 6.75%, 6.25%, pre-fund with CERBT</li> </ul>
■ General Inflation	<ul style="list-style-type: none"> <li>■ 3.00%</li> </ul>	<ul style="list-style-type: none"> <li>■ Same</li> </ul>
■ Aggregate Payroll Increases	<ul style="list-style-type: none"> <li>■ 3.25%</li> </ul>	<ul style="list-style-type: none"> <li>■ Same</li> </ul>



**ACTUARIAL ASSUMPTIONS**

	<b>June 30, 2009 Valuation</b>	<b>June 30, 2011 Valuation</b>																																				
■ Mortality, Termination, Disability	<ul style="list-style-type: none"> <li>■ CalPERS - 1997-2002 Experience Study</li> <li>■ SCERS – 6/30/09 Valuation Assumptions</li> </ul>	<ul style="list-style-type: none"> <li>■ CalPERS - 1997-2007 Experience Study</li> <li>■ SCERS – 6/30/11 Valuation Assumptions</li> <li>■ Post Retirement Mortality Projection Scale AA</li> </ul>																																				
■ Service Retirement	<table border="0"> <tr> <td></td> <td align="center"><u>Level</u></td> <td align="center"><u>ERA</u></td> </tr> <tr> <td>■ CalPERS 1997-2002 Experience Study</td> <td></td> <td></td> </tr> <tr> <td>Fire</td> <td align="center">3%@55</td> <td align="center">56</td> </tr> <tr> <td>Police</td> <td align="center">3%@50</td> <td align="center">55</td> </tr> <tr> <td>Misc</td> <td align="center">2%@55</td> <td align="center">60</td> </tr> <tr> <td>■ SCERS – 6/30/09 Valuation Assumptions</td> <td></td> <td></td> </tr> </table>		<u>Level</u>	<u>ERA</u>	■ CalPERS 1997-2002 Experience Study			Fire	3%@55	56	Police	3%@50	55	Misc	2%@55	60	■ SCERS – 6/30/09 Valuation Assumptions			<table border="0"> <tr> <td></td> <td align="center"><u>Level</u></td> <td align="center"><u>ERA</u></td> </tr> <tr> <td>■ CalPERS 1997-2007 Experience Study</td> <td></td> <td></td> </tr> <tr> <td>Fire</td> <td align="center">3%@55</td> <td align="center">57</td> </tr> <tr> <td>Police</td> <td align="center">3%@50</td> <td align="center">54</td> </tr> <tr> <td>Misc</td> <td align="center">2%@55</td> <td align="center">59</td> </tr> <tr> <td>■ SCERS – 6/30/11 Valuation Assumptions</td> <td></td> <td></td> </tr> </table>		<u>Level</u>	<u>ERA</u>	■ CalPERS 1997-2007 Experience Study			Fire	3%@55	57	Police	3%@50	54	Misc	2%@55	59	■ SCERS – 6/30/11 Valuation Assumptions		
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**ACTUARIAL ASSUMPTIONS**

	<b>June 30, 2009 Valuation</b>	<b>June 30, 2011 Valuation</b>																																																																																																		
■ CalPERS Service	■ City service plus ½ service between age 30 and City hire date	■ Same																																																																																																		
■ Medical Trend	<p align="center"><u>Increase from Prior Year</u></p> <table border="1"> <thead> <tr> <th rowspan="2"><u>Year</u></th> <th colspan="2"><u>Non-Medicare</u></th> <th colspan="2"><u>Medicare</u></th> </tr> <tr> <th><u>HMO</u></th> <th><u>PPO</u></th> <th><u>HMO</u></th> <th><u>PPO</u></th> </tr> </thead> <tbody> <tr> <td>2009</td> <td colspan="4">Actual 2009 Premiums</td> </tr> <tr> <td>2010</td> <td colspan="4">Actual 2010 Premiums</td> </tr> <tr> <td>2011</td> <td>8.4%</td> <td>9.0%</td> <td>8.7%</td> <td>9.3%</td> </tr> <tr> <td>2012</td> <td>7.8%</td> <td>8.3%</td> <td>8.0%</td> <td>8.5%</td> </tr> <tr> <td>2013</td> <td>7.1%</td> <td>7.5%</td> <td>7.3%</td> <td>7.7%</td> </tr> <tr> <td>2014</td> <td>6.5%</td> <td>6.8%</td> <td>6.6%</td> <td>6.9%</td> </tr> <tr> <td>2015</td> <td>5.8%</td> <td>6.0%</td> <td>5.9%</td> <td>6.1%</td> </tr> <tr> <td>2016</td> <td>5.2%</td> <td>5.3%</td> <td>5.2%</td> <td>5.3%</td> </tr> <tr> <td>2017+</td> <td>4.5%</td> <td>4.5%</td> <td>4.5%</td> <td>4.5%</td> </tr> </tbody> </table>	<u>Year</u>	<u>Non-Medicare</u>		<u>Medicare</u>		<u>HMO</u>	<u>PPO</u>	<u>HMO</u>	<u>PPO</u>	2009	Actual 2009 Premiums				2010	Actual 2010 Premiums				2011	8.4%	9.0%	8.7%	9.3%	2012	7.8%	8.3%	8.0%	8.5%	2013	7.1%	7.5%	7.3%	7.7%	2014	6.5%	6.8%	6.6%	6.9%	2015	5.8%	6.0%	5.9%	6.1%	2016	5.2%	5.3%	5.2%	5.3%	2017+	4.5%	4.5%	4.5%	4.5%	<p align="center"><u>Increase from Prior Year</u></p> <table border="1"> <thead> <tr> <th rowspan="2"><u>Year</u></th> <th><u>Non-Medicare</u></th> <th><u>Medicare</u></th> </tr> <tr> <th colspan="2"><u>All Plans</u></th> </tr> </thead> <tbody> <tr> <td>2009</td> <td colspan="2">n/a</td> </tr> <tr> <td>2010</td> <td colspan="2">n/a</td> </tr> <tr> <td>2011</td> <td colspan="2">Actual 2011 Premiums</td> </tr> <tr> <td>2012</td> <td colspan="2">Actual 2012 Premiums</td> </tr> <tr> <td>2013</td> <td>9.0%</td> <td>9.4%</td> </tr> <tr> <td>2014</td> <td>8.5%</td> <td>8.9%</td> </tr> <tr> <td>2015</td> <td>8.0%</td> <td>8.3%</td> </tr> <tr> <td>2016</td> <td>7.5%</td> <td>7.8%</td> </tr> <tr> <td>2017</td> <td>7.0%</td> <td>7.2%</td> </tr> <tr> <td>2018</td> <td>6.5%</td> <td>6.7%</td> </tr> <tr> <td>2019</td> <td>6.0%</td> <td>6.1%</td> </tr> <tr> <td>2020</td> <td>5.5%</td> <td>5.6%</td> </tr> <tr> <td>2021+</td> <td>5.0%</td> <td>5.0%</td> </tr> </tbody> </table>	<u>Year</u>	<u>Non-Medicare</u>	<u>Medicare</u>	<u>All Plans</u>		2009	n/a		2010	n/a		2011	Actual 2011 Premiums		2012	Actual 2012 Premiums		2013	9.0%	9.4%	2014	8.5%	8.9%	2015	8.0%	8.3%	2016	7.5%	7.8%	2017	7.0%	7.2%	2018	6.5%	6.7%	2019	6.0%	6.1%	2020	5.5%	5.6%	2021+	5.0%	5.0%
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**ACTUARIAL ASSUMPTIONS**

	<b>June 30, 2009 Valuation</b>	<b>June 30, 2011 Valuation</b>																																																
■ Dental Trend	■ 3%	■ Same																																																
■ Cap Increase Rates	<p>■ Fire:</p> <ul style="list-style-type: none"> <li>• Lowest medical premium – medical trend</li> <li>• Highest benefit dental premium – dental trend</li> </ul> <p>■ Misc &amp; Police: 3%</p>	■ Same																																																
■ Estimated Monthly Age-Based Claims Cost per Retiree	<table border="1"> <thead> <tr> <th>Medical Plan</th> <th>Age</th> <th>M</th> <th>F</th> </tr> </thead> <tbody> <tr> <td rowspan="3">Kaiser HMO</td> <td>50</td> <td>\$450</td> <td>\$585</td> </tr> <tr> <td>55</td> <td>581</td> <td>596</td> </tr> <tr> <td>60</td> <td>739</td> <td>636</td> </tr> <tr> <td rowspan="3">Health Net HMO</td> <td>50</td> <td>464</td> <td>603</td> </tr> <tr> <td>55</td> <td>600</td> <td>615</td> </tr> <tr> <td>60</td> <td>762</td> <td>656</td> </tr> </tbody> </table>	Medical Plan	Age	M	F	Kaiser HMO	50	\$450	\$585	55	581	596	60	739	636	Health Net HMO	50	464	603	55	600	615	60	762	656	<table border="1"> <thead> <tr> <th>Medical Plan</th> <th>Age</th> <th>M</th> <th>F</th> </tr> </thead> <tbody> <tr> <td rowspan="3">Kaiser HMO</td> <td>50</td> <td>\$485</td> <td>\$630</td> </tr> <tr> <td>55</td> <td>627</td> <td>642</td> </tr> <tr> <td>60</td> <td>796</td> <td>686</td> </tr> <tr> <td rowspan="3">Health Net HMO</td> <td>50</td> <td>548</td> <td>713</td> </tr> <tr> <td>55</td> <td>708</td> <td>726</td> </tr> <tr> <td>60</td> <td>900</td> <td>775</td> </tr> </tbody> </table>	Medical Plan	Age	M	F	Kaiser HMO	50	\$485	\$630	55	627	642	60	796	686	Health Net HMO	50	548	713	55	708	726	60	900	775
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■ Participation at Retirement	<p>■ Currently covered – 100%</p> <p>■ Currently waived – 80%</p>	■ Same																																																



**ACTUARIAL ASSUMPTIONS**

	<b>June 30, 2009 Valuation</b>	<b>June 30, 2011 Valuation</b>
■ Inactive Vested Retirement Age	<b>■ SCERS:</b> <ul style="list-style-type: none"> <li>● Sect 399 – Age 62</li> <li>● Sect 175 – Age 65</li> </ul>	■ Same
■ Medical Plan at Retirement	<b>■ Currently covered – Same as active elections</b> <b>■ Currently waived – Weighted premium based on current active distribution</b>	<b>■ Currently covered – Same as active elections</b> <b>■ Currently waived – Kaiser HMO Premium</b>
■ Medicare Eligible Rate	<b>■ Hired before 4/1/86:</b> <ul style="list-style-type: none"> <li>● Misc – 90%</li> <li>● Safety – 80%</li> </ul> <b>■ Hired on or after 4/1/86: 100%</b> <b>■ Retirees under age 65:</b> <ul style="list-style-type: none"> <li>● Misc – 95%</li> <li>● Safety – 90%</li> </ul>	■ Same



**ACTUARIAL ASSUMPTIONS**

	<b>June 30, 2009 Valuation</b>	<b>June 30, 2011 Valuation</b>
■ Marital Status at Retirement	<b>■ Actives:</b> <ul style="list-style-type: none"> <li>● Currently covered – current marital status</li> <li>● Not currently covered – 85% married</li> </ul> <b>■ Retirees – current marital status</b>	■ Same
■ Spouse Age	<b>■ Actives – Males 3 years older than females</b> <b>■ Retirees – Males 3 years older than females if spouse birth date not available</b>	■ Same
■ Surviving Spouse Participation	■ 100%	■ Same



## ACTUARIAL ASSUMPTIONS

	June 30, 2009 Valuation	June 30, 2011 Valuation
<ul style="list-style-type: none"> <li>■ Dependents at Retirement</li> </ul>	<ul style="list-style-type: none"> <li>■ Pre-65:                             <ul style="list-style-type: none"> <li>● Actives                                     <ul style="list-style-type: none"> <li>➢ Misc – 10%</li> <li>➢ Safety – 20%</li> </ul> </li> <li>● Retirees – same as current coverage</li> </ul> </li> <li>■ Post-65 – 0%</li> </ul>	<ul style="list-style-type: none"> <li>■ Same</li> </ul>
<ul style="list-style-type: none"> <li>■ Waived Retiree Re-Election</li> </ul>	<ul style="list-style-type: none"> <li>■ Retirees &lt; 65 – 30% re-elect at age 65</li> <li>■ Retirees ≥ 65 – 0% re-elect</li> </ul>	<ul style="list-style-type: none"> <li>■ Same</li> </ul>
<ul style="list-style-type: none"> <li>■ Future New Participants</li> </ul>	<ul style="list-style-type: none"> <li>■ None – Closed Group</li> </ul>	<ul style="list-style-type: none"> <li>■ Same</li> </ul>



September 26, 2012

E-33



## DEFINITIONS

<ul style="list-style-type: none"> <li>■ GASB 45 Accrual Accounting</li> </ul>	<ul style="list-style-type: none"> <li>● Project future employer-provided benefit cash flow for current active employees and current retirees</li> <li>● Discount projected cash flow to valuation date using discount rate and actuarial assumptions to determine present value of benefits (PVB)</li> <li>● Discount rate is expected long-term return on plan assets</li> <li>● Allocate PVB to past, current, and future periods</li> <li>● Normal Cost is portion of PVB allocated to current fiscal year</li> <li>● Actuarial cost method used for valuation is Entry Age Normal Cost method which determines Normal Cost as a level percent of payroll</li> <li>● Actuarial Accrued Liability (AAL) is portion of PVB allocated to prior service with the employer</li> <li>● Unfunded AAL (UAAL) is AAL less Plan Assets</li> <li>● Assets must be in segregated and restricted trust to be considered Plan Assets for GASB 45</li> </ul>
<ul style="list-style-type: none"> <li>■ PayGo Cost</li> </ul>	<ul style="list-style-type: none"> <li>● Cash subsidy is employer pay-as-you-go benefit payments for retirees</li> <li>● Implied subsidy is difference between actual cost of retiree benefits and retiree premiums subsidized by active employee premiums</li> </ul>



September 26, 2012

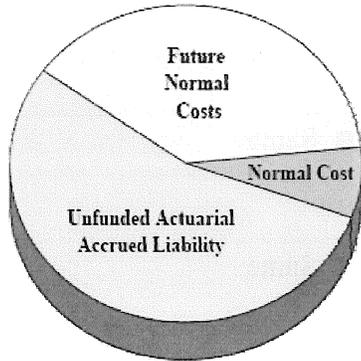
E-34



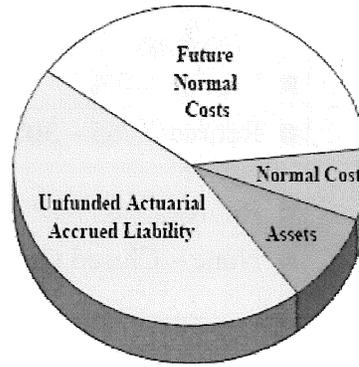
## DEFINITIONS

### Present Value of Benefits

**Present Value of Benefits  
(Without Plan Assets)**



**Present Value of Benefits  
(With Plan Assets)**



September 26, 2012

E-35



## DEFINITIONS

<p>■ Annual Required Contribution (ARC)</p>	<ul style="list-style-type: none"> <li>● GASB 45 contribution is Normal Cost plus amortization of:                             <ul style="list-style-type: none"> <li>➢ Initial UAAL and AAL for plan, assumption, and method changes</li> <li>➢ Experience gains and losses (difference between actual experience and that expected from assumptions)</li> <li>➢ Contribution gains and losses (difference between ARC and actual contributions)</li> </ul> </li> </ul>
<p>■ Net OPEB Obligation (NOO)</p>	<ul style="list-style-type: none"> <li>● NOO is accumulated amounts expensed but not funded</li> <li>● Net OPEB Asset if amounts funded exceed those expensed</li> </ul>
<p>■ Annual OPEB Cost (AOC)</p>	<ul style="list-style-type: none"> <li>● Expense for current period including:                             <ul style="list-style-type: none"> <li>➢ ARC</li> <li>➢ Interest on NOO</li> <li>➢ Adjustment of NOO</li> </ul> </li> <li>● Adjustment of NOO prevents double counting of expense since ARCs include amortization of prior contribution gains and losses previously expensed</li> </ul>



September 26, 2012

E-36



## **RESOLUTION NO. 2013-XXXX**

Adopted by the Sacramento City Council  
**September 17, 2013**

**AUTHORIZE THE CITY TREASURER TO EXECUTE A CONTRACT WITH THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM TO PRE-FUND THE CITY'S LONG-TERM RETIREE HEALTHCARE AND OTHER POST-EMPLOYMENT BENEFITS; AND AUTHORIZE THE CITY MANAGER AND CITY TREASURER TO EXECUTE RELATED DOCUMENTS AND FINANCIAL TRANSACTIONS NECESSARY TO IMPLEMENT THE PROGRAM**

### **BACKGROUND**

- A. The Government Accounting Standards Board (GASB) established GASB Statement Nos. 45 and 50 to address disclosure requirements and calculation standards for state and local governments on retiree healthcare and other post-employment benefits (OPEB).
- B. Under the requirements of GASB 45, the City contracted with Bartel Associates, LLC to calculate the long-term cost associated with the City's OPEB. Based on actuarial standards and a 4.25% discount rate, the City's OPEB liability is \$440 million.
- C. The City currently funds the nearly \$10 million annual payments to retirees on a pay-as-you-go basis and has not established a program for funding the liabilities going forward.
- D. The establishment of an OPEB trust will enable the City to set aside funds within an investment strategy that has potential to earn a higher investment return than the City's Investment Pool A, where the funds are currently invested. These higher returns will offset the required cash flow to fund the future benefit payments.
- E. The California Public Employees' Retirement System (CalPERS) manages OPEB funds for over 350 state and local municipalities with \$2.7 billion in assets under management through its California Employers' Retiree Benefit Trust (CERBT) Fund. CERBT has three fund options that have expected long-term rates of return in the range of 6.40%-7.60% based on the investors risk tolerance.
- F. Given the relative size of the City's annual OPEB contribution, the City would not have the capacity to diversify the portfolio to reduce risk and generate similar real returns on its own.
- G. The City Treasurer, under the City Charter, is responsible for the investment and

management of all City funds.

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:**

- Section 1. The City Council authorizes the City Treasurer to execute a contract with CalPERS to pre-fund the City's long-term retiree healthcare and other post-employment benefits.
- Section 2. The City Council authorizes the City Treasurer to execute any legal and administrative documents on behalf of the City to contract with CalPERS.
- Section 3. The City Council authorizes the City Manager to establish an appropriation from committed fund balance to fund the CERBT.
- Section 4. The City Council authorizes the City Manager to request and receive disbursements from CERBT for payment of future retiree healthcare and other post-employment benefit obligations.