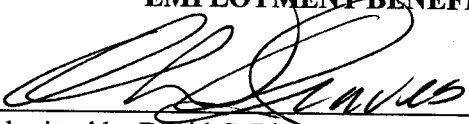





City of Carson Report to Mayor and City Council

February 5, 2013
New Business Discussion

**SUBJECT: CONSIDERATION OF ADOPTION OF RESOLUTION NO. 13-012 ESTABLISHING
POLICIES RELATED TO ADDRESSING THE CITY'S OTHER POST
EMPLOYMENT BENEFITS LIABILITY**


Submitted by David C. Biggs
City Manager


Approved by David C. Biggs
City Manager

I. SUMMARY

The City provides employees with retiree medical if they retire from the City and meet certain other qualifications. While the cost for this benefit is budgeted and paid each year for those retirees taking advantage of the benefit, there is a substantial unfunded liability which exists for the City and which is reflected on the City's financial statements. In 2012, the City Council took the first steps in addressing this unfunded liability through the establishment of an Other Post Employment Benefits (OPEB) Trust with the California Public Employees Retirement System (CalPERS) with two initial deposits made. The City Council is asked to consider providing additional policy direction to ensure this unfunded liability is addressed in a timely and financially responsible manner. Tonight the Council is asked to adopt Resolution No. 13-012 which would delineate the City's policies related to addressing this unfunded liability (Exhibit No. 1).

II. RECOMMENDATION

WAIVE further reading and ADOPT Resolution No. 13-012, "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON, CALIFORNIA, ESTABLISHING POLICIES RELATED TO ADDRESSING THE CITY'S OTHER POST EMPLOYMENT BENEFITS LIABILITY."

III. ALTERNATIVES

1. ADOPT the resolution with changes/modifications determined by the City Council, or;
2. TAKE another action as determined by the City Council.

IV. BACKGROUND

The City of Carson is a financially well-managed city. In 2012, the City Council approved an important step in addressing a long-term actuarial unfunded liability in the form of future retiree medical benefits for eligible employees. These benefits, also referred to as Other Post Employment Benefits (OPEB), have an actuarially estimated total future value of \$48,138,659 as of June 30, 2012

(Exhibit No. 2). This amount has been reflected on the City's Statement of Net Assets as an unfunded actuarial accrued liability. While the City has this unfunded liability, it does budget and pay only each year's current obligation from the annual operating budget, which for FY 2012/13 was estimated to be \$1,440,000. This is commonly referred to as the pay-as-you-go system.

The approach to accounting for and paying for this obligation as outlined above is one of the two ways this future obligation can be addressed and reflected in the City's financial statements. Utilizing this method, while the Governmental Accounting Standards Board (GASB) does not require agencies to fund actuarial contributions, if the City does not prefund the liability, the City's financial statements will show a growing net OPEB obligation each year as a liability. This growing liability could have a negative impact on the City's credit rating and cost of issuance of debt.

The second method by which a city can account for this obligation is defined by the Governmental Accounting Standards Board (GASB) Statement No. 45. This provides an agency the mechanism to establish an irrevocable OPEB Trust with a third party into which the agency makes contributions designed to accrue sufficient funds over a defined period of time to address the unfunded liability. These contributions, together with investment earnings, eventually should be sufficient to meet the long-term obligations.

On April 17, 2012, the City Council approved the establishment of an OPEB Trust with CalPERS with an initial deposit of \$3,384,670 from the dissolved Redevelopment Agency. This amount reflected the then estimated value of the Redevelopment Agency's share of the total unfunded liability and was deposited in June 2012. A recent update of the amount owed by the Redevelopment should result in another payment after it is approved as part of the redevelopment dissolution process through the State. As part of the FY 2012/13 budget adoption, the City Council also approved a \$1 million contribution to the OPEB Trust from the General Fund available fund balance above the reserve goal to make a start in addressing the greatest portion of this unfunded liability. Starting with the 2013/14 fiscal year, we will be recommending that the annual pay-as-you-go amount be transferred to the OPEB Trust at the start of the fiscal year and that current payments be made from the OPEB Trust.

So, in 2012, nearly \$4.4 million was deposited into the OPEB Trust, and through December 31, 2012, investment income has been more than \$442,000 for just the first six months or so with the total balance as of December 31, 2012, being \$4,823,816. The City now has approximately 10% of the total unfunded liability in the OPEB Trust. Ensuring that the City continues to set aside funds for this obligation should be a high priority and as such staff is recommending a two-pronged approach to ensure we are making progress in addressing this matter.

The on-going element of this two-pronged approach would be recommended to be

instituted as part of the FY 2013/14 fiscal year budget. If the City were to be making its Annual Required Contribution for the 2012/13 fiscal year it would be \$5,945,000. As noted above, the current amounts due each fiscal are paid from the operating budget for that fiscal year, which for FY 2012/13 is approximately \$1.4 million and offsets a portion of the Amortization of the Unfunded Liability. As such, this would require an additional \$4.5 million per year to be set aside to fully amortize the unfunded liability over 27 years. To put this in perspective, it is helpful to calculate this as a percentage of payroll, with benefit eligible payroll being budgeted as \$25.9 million for FY 2012/13.

FY 2012/13	\$ Amount	% of Payroll
Benefit Eligible Payroll	\$25,900,000	
Normal Cost	\$2,391,586	9.23%
Amortization of Unfunded Liability	\$3,553,326	13.72%
Annual Required Contribution	\$5,944,912	22.95%
Less Pay-As-You Go Amount	\$1,440,000	5.56%
Additional Contribution Required	\$4,504,912	17.39%

As such, the City should be setting aside an additional 17.39% of payroll each fiscal year. However, this would be difficult to do in any single fiscal year without a tremendous increase in available resources. Therefore, it is recommended that starting in FY 2013/14, the City initially budget for an additional 1% of payroll to be set aside, with that percentage being increased by 1%, for a total of 2%, in the next fiscal year. And, each year thereafter, the percentage would be increased by another 1%. On this basis, it would take just over 17 years to reach the full percentage level required to address the unfunded liability on a forward going basis. However, there would still be the need to address the many years in which no contributions toward the growing unfunded liability were made. Every two years a new actuarial will be done which will review the progress being made toward eliminating the unfunded liability and the contribution rates could be modified based on demographic changes and/or investment earnings, or other relevant factors, if appropriate.

This annual additional contribution as a percentage of payroll would be a policy matter and could be modified from year to year, though once the funds are deposited into the OPEB Trust, they would not be available for any other purpose.

The second element of this two-pronged approach to address this issue is to establish a policy or goal to make additional contributions above the increasing annual percentage of payroll amount from available fund balance above the reserve goal at the end of each fiscal year when the audit is completed and designations are made. These annual contributions can help to accelerate the growth of the OPEB Trust Fund, assist in addressing the prior years of underfunding, and would ameliorate the amounts that would have to be budgeted each year in the operating budget over time.

As an initial starting point, commencing with FY 2011/12 which is just now being closed out, staff would recommend that 25% of the general fund fund balance above the reserve goal of \$20 million be designated as a contribution to the OPEB Trust. For example, if the general fund has a fund balance of \$27 million as of June 30, 2012, the Council would designate 25% of \$7 million, or \$1.75 million, as a contribution to the OPEB Trust. It is recommended that this policy be adopted in the form of a resolution so this can occur at the end of each fiscal year, though as a policy it could be suspended by an action of the Council should circumstances change or another higher priority expenditure or emergency take precedence.

A variation of this element could also be that should the City receive any type of "one-time" windfall or payment, such as an award through a lawsuit, that all or some of this type of amount could be designated as a contribution to the OPEB Trust at that time rather than waiting until year end. Should Council approve this approach, the Director of Administrative Services, with the approval of the City Manager, shall cause the transfer of the amount deemed reasonable and available, to the OPEB trust.

With these two elements being implemented, the City will be on course to set aside sufficient funds to address this significant unfunded liability. Not only will this contribute to long-term fiscal stability, but it will also ensure that the funds are available for the City to provide the retirement benefits promised to employees without passing the burden on to future generations of residents and taxpayers.

V. FISCAL IMPACT

The adoption of the Resolution No. 13-012 would provide direction as it relates to addressing the City's OPEB obligations in a manner consistent with the Council's adopted Financial Policies and Guidelines as set forth in Resolution No. 12-014 (Exhibit No. 3). If adopted as recommended, there would be an additional contribution to the OPEB Trust based on the fund balance of the general fund at close out of the 2011/12 Fiscal Year, and then each fiscal year thereafter. In addition, the other policy direction provided in Resolution No. 13-012 would serve

as the basis for the preparation of the proposed FY 2013/14 general fund budget.

VI. EXHIBITS

- 1) Resolution No. 13-012. (pgs. 6-7)
- 2) Actuarial Valuation dated June 20, 2012. (pgs. 8-38)
- 3) Financial Principles and Guidelines. (pgs. 39-42)

Document1

Prepared by: David Biggs, City Manager

TO:Rev04-23-12

Reviewed by:

City Clerk	City Treasurer
Administrative Services	Development Services
Economic Development	Public Services

Action taken by City Council

Date_____ Action_____

RESOLUTION NO. 13-012

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON,
CALIFORNIA, ESTABLISHING POLICIES RELATED TO ADDRESSING
THE CITY'S OTHER POST EMPLOYMENT BENEFITS LIABILITY

WHEREAS, the City provides employees with retiree medical if they retire from the City and meet certain other qualifications; and

WHEREAS, these benefits, also referred to as Other Post Employment Benefits (OPEB), have an actuarially estimated total future value of \$48,138,659 as of June 30, 2012; and

WHEREAS, on April 17, 2012, the City Council approved the establishment of an OPEB Trust with CalPERS with an initial deposit of \$3,384,670 from the dissolved Redevelopment Agency; and

WHEREAS, ensuring that the City continues to set-aside funds for this obligation should be a high priority and progress should be made in addressing this matter.

NOW THEREFORE, THE CITY COUNCIL OF THE CITY OF CARSON, CALIFORNIA, DOES HEREBY RESOLVE, FIND, DETERMINE AND ORDER AS FOLLOWS:

Section 1. It shall be the policy of the City Council starting in FY 2013/14, that the City initially budget for an additional 1% of payroll as a contribution to the OPEB Trust, with that percentage being increased by 1%, for a total of 2% in the next fiscal year, and the percentage being increased an additional 1% each fiscal year thereafter.

Section 2. Commencing with FY 2011/12, it shall be the policy of the City Council that at year end, 25% of the general fund fund balance above the reserve goal of \$20 million, be designated at year end as a contribution to the OPEB Trust. This policy could be suspended by an action of the City Council should circumstances change or another higher priority expenditure or emergency take precedence.

Section 3. It shall be the policy of the City Council that when the City receives any "one time" monies, such as an award through a lawsuit, that all or some of these "one time" monies be considered for designation as a contribution of the OPEB Trust at that time rather than waiting until year end.

EXHIBIT NO. 01

[MORE]



PASSED, APPROVED and ADOPTED this _____ day of February, 2013.

ATTEST:

Mayor Jim Dear

City Clerk Donesia L. Gause, CMC

APPROVED AS TO FORM:

City Attorney



The  Company

BENEFITS AND COMPENSATION
CONSULTANTS AND ACTUARIES

450 B Street, Suite 750
San Diego, CA 92101-8002

Telephone (619) 239-0831
Facsimile (619) 239-0807
www.eplercompany.com

June 20, 2012

PRIVATE

Ms. Trinidad Catbagan
Finance Manager
City of Carson
701 E. Carson Street
Carson, CA 90749

Re: GASB Actuarial Valuation

Dear Ms. Catbagan:

We are presenting our report of the June 30, 2011 actuarial valuation conducted on behalf of the City of Carson (the "City") for its retiree health program.

The purpose of the actuarial valuation is to measure the District's liability for retiree health benefits and to determine the District's accounting requirements under the Government Accounting Standard Board (GASB) Statements No. 43, 45 & 57 in regard to unfunded liabilities for retiree health benefits.

The Epler Company is a San Diego-based, independently owned actuarial, benefits and compensation consulting firm specializing in group health, retiree health valuations, and qualified pension plan valuations. We have set forth the results of our valuation in this report.

We have enjoyed working on this assignment and are available to answer any questions.

Sincerely,

THE EPLER COMPANY



Marilyn K Jones, ASA, MAAA, EA
Vice President and Actuary

MKJ:rl
Enclosure

As required by U.S. Treasury Regulations governing tax practice, IRS Circular 230 Tax Advice Disclaimer, you are hereby advised that any written tax advice contained herein was not written or intended to be used (and cannot be used) by any taxpayer for the purpose of avoiding penalties that may be imposed under the U.S. Internal Revenue Code.

EXHIBIT NO. 02



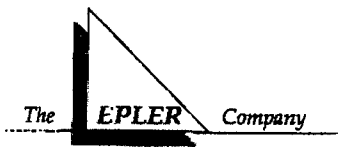
City of Carson
Actuarial Valuation
Retiree Health Program
As of June 30, 2011

Prepared by:

The Epler Company
450 "B" Street, Suite 750
San Diego, CA 92101
(619) 239-0831

June 2012





**City of Carson
Actuarial Valuation
Retiree Health Program
As of June 30, 2011**

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Section I. Executive Summary

Background

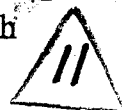
The City of Carson (the City) selected The Epler Company to perform an actuarial valuation of its retiree health program. The purpose of the actuarial valuation is to measure the City's liability for retiree health benefits and to determine the City's accounting requirements for other post-employment benefits (OPEB) under Governmental Accounting Standards Board Statements No. 43 & 45 (GASB 43 and GASB 45). GASB 45 requires accrual accounting for the expensing of OPEB. The expense is generally accrued over the working career of employees, rather than on a pay-as-you-go basis. GASB 43 requires additional financial disclosure for funded OPEB Plans. GASB 57 requires participating employers in a multiple employer plan to use the same measurement date. The City recently joined the CalPERS Employers' Retiree Benefit Trust (CERBT) and is adopting GASB 57 effective June 30, 2011.

The City currently provides a contribution towards retiree health benefits for eligible employees at retirement continuing medical coverage under the CalPERS Health Program. As of the valuation date, there are 197 retirees eligible to receive a City contribution with 179 currently electing coverage and receiving a contribution. In addition, there are 505 employees currently working and earning service credit for retiree health benefits. 164 of these employees are unclassified part-time employees.

To be eligible for a City contribution for retiree health benefits, an employee must retire from the City and commence their pension benefits under PERS (typically on or after age 50 with at least 5 years of service). The City's contribution has been based on the highest HMO family rate and is subject to negotiated annual increases. The City's contribution is payable for life for retirees and surviving spouses. The City provides the CalPERS minimum required employer contribution (\$108 per month in 2011, \$112 per month in 2012 and indexed to medical CPI increases for future years) for unclassified/part-time employee and their surviving spouses continuing coverage in the CalPERS Health Program at retirement. Section V of the report details the plan provisions that were included in the valuation and the current premium costs for health coverage.

Results of the Retiree Health Valuation

The amount of the actuarial liability for the City's retiree health benefits program as of June 30, 2011, the measurement date, is \$63,801,567 (\$57,753,972 for City staff and \$6,047,595 for former Redevelopment staff). This amount is based on a discount rate of 5.75% which



assumes the City partially pre-fund for its retiree health benefits program through the CERBT. The amount represents the present value of all contributions for retiree health benefits projected to be paid by the City for current and future retirees. If the City were to place this amount in a fund earning interest at the rate of 5.75% per year, and all other actuarial assumptions were exactly met, the fund would have exactly enough to pay all expected contributions for retiree health benefits. This includes contributions for retiree health benefits for the current retirees as well as the current active employees expected to retire in the future. The valuation does not consider employees not yet hired as of the valuation date.

If the amount of the actuarial liability is apportioned into past service, current service and future service components; the past service component (actuarial accrued liability) is \$48,138,659 (\$43,998,171 for City staff and \$4,140,488 for former Redevelopment staff), the current service component (normal cost or current year accrual) is \$2,138,579 (\$1,815,559 for City staff and \$323,020 for former Redevelopment staff) and the future service component (not yet accrued liability) is \$13,524,329 (\$11,940,242 for City staff and \$1,584,087 for former Redevelopment staff).

Funding

As of the valuation date, the City does not have any funds eligible as plan assets under GASB 45. Under GASB 45, assets cannot be considered as employer contributions or plan assets unless they are segregated for exclusive use for retiree health benefit payments and secured from creditors of the City. The City's unfunded actuarial accrued liability at June 30, 2011 is \$48,138,659 (\$43,998,171 for City staff and \$4,140,488 for former Redevelopment staff).

The City recently joined the CERBT making a contribution of \$3,384,670 for its 2011/12 fiscal year in addition to the direct contributions it paid for retiree coverage. In 2012/13, the City intends to make a contribution of \$1,000,000 in addition to direct contributions for retiree coverage. Beginning in 2013/14, the City intends to contribute 1% of benefit eligible payroll in addition to direct contributions for retiree coverage.

Effective in July 2011, the CERBT provides participating employers with three investment allocation strategies. The allocation strategies all contain the same asset classes but vary in the amounts allocated to each asset class. The expected rate of return of assets is dependent on the funding strategy of a participating employer and which investment allocation strategy is selected. For employers fully funding their annual required contribution, strategy 1 has an expected median yield of 7.61%, strategy 2 has an expected median yield of 7.06% and strategy 3 has an expected median yield of 6.39%. The City has elected investment strategy 1.

The valuation was performed using a 5.75% discount rate which reflects a blend between a pay-as-you-go discount rate of 5% and the 7.61% discount rate for invested assets. The blend is based on the funding policy referenced above and recognizes that the City will not be fully funding its annual required contribution. The results assuming the City fully funds its annual required contribution and assuming the City does not prefund (pay-as-you-go) are also provided in Section II-F of the report.

There are multiple ways to approach the funding of a retiree health plan. The annual required contribution (accrual expense) is one method, of many, that could be used to pre-fund benefits. Section IV of the report provides other funding alternatives for the City.

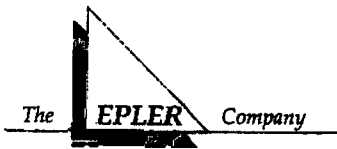
Annual Required Contribution (Expense)

Under GASB 45, the City is required to expense for its retiree benefits using accrual accounting. The accrual expense or annual required contribution under GASB terminology is generally accrued over the working career of employees. For the City's 2011/2012 fiscal year, the annual required contribution is \$5,814,874 (\$5,167,652 for City staff and \$647,222 for former Redevelopment staff). This amount is comprised of the present value of benefits accruing in the fiscal year (normal cost) plus a 27-year amortization (on a level-dollar basis) of the unfunded actuarial accrued liability (past service liability) at June 30, 2011. Thus, it represents a means to expense the plan's liabilities in an orderly manner. The net OPEB obligation at the end of the fiscal year will reflect any actual retiree health contributions and any GASB eligible pre-funding amounts made during the period.

Actuarial Basis

The actuarial valuation is based on the assumptions and methods outlined in Section VII of the report. To the extent that a single or a combination of assumptions is not met the future liability may fluctuate significantly from its current measurement. As an example, the healthcare cost increase anticipates that the rate of increase in medical cost will be at moderate levels and decline over several years. Increases higher than assumed would bring larger liabilities and expensing requirements. A 1% increase in the healthcare trend rate for each future year would increase the annual required contribution by 18%.

Another key assumption used in the valuation is the discount (interest) rate which is based on the expected rate of return of plan assets. The valuation is based on a discount rate of 5.75%. A 1% decrease in the discount rate would increase the annual required contribution by 11%. A 1% increase in the discount rate would decrease the annual required contribution by 9%.



GASB 45 requires that implicit rate subsidies be considered in the valuation of medical costs. An implicit rate subsidy occurs when the rates for retirees are the same as for active employees. Since pre-Medicare retirees are typically much older than active employees, their actual medical costs are almost always higher than for active employees. It is our understanding that the City participates in a community-rated health plan (CalPERS Health Plan) and is exempt from valuing this rate subsidy. Typically, inclusion of the rate subsidy will result in significantly larger liabilities and expensing requirements.

Section II. Financial Results

A. Valuation Results

The table below presents the employer liabilities associated with the City's retiree health benefits program determined in accordance with GASB 43 & 45. The actuarial liability (AL) is the present value of all the City's contributions projected to be paid under the program. The actuarial accrued liability (AAL) reflects the amount attributable to the past service of current employees and retirees. The normal cost reflects the accrual attributable for the current period. The results were determined using the 5.75% discount rate which reflects the City current funding policy to partially prefund for its retiree health benefits through the CERBT.

	<u>City Staff</u>	<u>Former Redevelopment</u>	<u>Total</u>
1. Actuarial Liability (AL)			
Actives	\$37,542,698	\$4,762,411	\$42,305,109
Retirees	<u>20,211,274</u>	<u>1,285,184</u>	<u>21,496,458</u>
Total AL	\$57,753,972	\$6,047,595	\$63,801,567
2. Actuarial Accrued Liability (AAL)			
Actives	\$23,786,897	\$2,855,304	\$26,642,201
Retirees	<u>20,211,274</u>	<u>1,285,184</u>	<u>21,496,458</u>
Total AAL	\$43,998,171	\$4,140,488	\$48,138,659
3. Normal Cost at June 30, 2011	\$ 1,815,559	\$ 323,020	\$ 2,138,579
No. of Active Employees	302	39	341
Average Age	49.0	49.4	49.0
Average Past Service	14.3	11.0	13.9
No. of Retired Employees	188	9	197
Average Age	70.1	64.5	69.9
Average Retirement Age	57.6	60.1	57.7

Note: Active count excludes 164 unclassified employees

B. Development of Unfunded Actuarial Accrued Liability

The table below presents the development of the unfunded actuarial accrued liability (UAAL). The unfunded actuarial accrued liability is the excess of the actuarial accrued liability (AAL) over the actuarial value of eligible plan assets¹. Eligible assets under GASB 45 must be segregated and secured for the exclusive purpose of paying for the retiree health benefits.

	City Staff	Former Redevelopment	Total
1. Actuarial Accrued Liability (AAL)	\$43,998,171	\$4,140,488	\$48,138,659
2. Actuarial Value of Assets ¹	<u>0</u>	<u>0</u>	<u>0</u>
3. Unfunded AAL (UAAL)	\$43,998,171	\$4,140,488	\$48,138,659

C. Amortization of Unfunded Actuarial Accrued Liability

The amortization of the UAAL component of the annual required contribution (ARC) is being amortized over an amortization period of 27 years on a level-dollar basis.

1. Unfunded AAL (UAAL)	\$43,998,171	\$4,140,488	\$48,138,659
2. Amortization Factor	13.54749	13.54749	13.54749
3. Amortization of UAAL	\$ 3,247,698	\$ 305,628	\$3,553,326

D. Annual Required Contribution (ARC)

The table below presents the development of the annual required contribution (ARC) under GASB 45 for the 2011/2012 fiscal year and an estimate for the 2012/2013 fiscal year.

ARC 2011/2012 Fiscal Year

1. Normal Cost at End of Year	\$1,919,954	\$341,594	\$2,261,548
2. Amortization of UAAL (End of Year)	<u>3,247,698</u>	<u>305,628</u>	<u>3,553,326</u>
3. Annual Required Contribution (ARC)	\$5,167,652	\$647,222	\$5,814,874

ARC 2012/2013 Fiscal Year

1. Normal Cost at End of Year	\$2,030,351	\$361,235	\$2,391,586
2. Amortization of UAAL (End of Year)	<u>3,247,698</u>	<u>\$305,628</u>	<u>3,553,326</u>
3. Annual Required Contribution (ARC)	\$5,278,049	\$666,863	\$5,944,912

¹ The City had no eligible plan assets under GASB 45 at June 30, 2011.

E. Estimated Net OPEB Obligation at 6/30/12

The table below presents an estimate of the net OPEB obligation at the end of the 2011/2012 fiscal year assuming the net OPEB obligation at June 30, 2011 is \$14,400,682. The actual net OPEB obligation will reflect actual contributions made for payment of retiree health benefits and expenses and to pre-fund.

	<u>Total</u>
1. Annual Required Contribution (ARC)	\$ 5,814,874
2. Interest on Net OPEB Obligation [E7 x .0575]	828,039
3. Adjustment to ARC [minus E7/13.54749]	(1,062,978)
4. Annual OPEB Cost	\$ 5,579,935
5. Contributions Made (Includes Benefit Payments)*	(4,917,824)
6. Increase in Net OPEB Obligation	\$ 662,111
7. Net OPEB Obligation – June 30, 2011	<u>14,400,682</u>
8. Net OPEB Obligation – June 30, 2012	\$15,062,793

*Based on actual reported by the City; includes \$1,533,154 for premiums and a \$3,384,670 contribution to the CERBT for prefunding.

F. Results - Alternative Discount Rates

The City also requested the measurement of the liability and annual required contribution using discount rates to reflect alternative funding strategies. The 7.61% comparable financial results (Table 1 below) reflect a policy to fully-fund the annual required contribution through the CERBT. The 5.0% comparable financial results (Table 2 below) reflect a policy to not prefund for retiree health benefits (pay-as-you-go).

Table 1 – Fund 100% of Annual Required Contribution (7.61% Discount Rate)

<u>Liabilities</u>	<u>City Staff</u>	<u>Former Redevelopment</u>	<u>Total</u>
1. Actuarial Liability (AL)			
Actives	\$26,116,885	\$3,353,222	\$29,470,107
Retirees	<u>16,825,578</u>	<u>1,056,104</u>	<u>17,881,682</u>
Total AL	\$42,942,463	\$4,409,326	\$47,351,789
2. Actuarial Accrued Liability (AAL)			
Actives	\$17,245,969	\$2,110,767	\$19,356,736
Retirees	<u>16,825,578</u>	<u>1,056,104</u>	<u>17,881,682</u>
Total AAL	\$34,071,547	\$3,166,871	\$37,238,418
3. Actuarial Value of Assets	<u>0</u>	<u>0</u>	<u>0</u>
4. Unfunded AAL (UAAL)	\$34,071,547	\$3,166,871	\$37,238,418
5. Amortization Factor	11.32678	11.32678	11.32678
6. Amortization of UAAL	\$ 3,008,051	\$ 279,591	\$3,287,642

2011/2012 Annual Required Contribution (ARC)

1. Normal Cost at End of Year (EOY)	\$ 1,391,402	\$ 256,209	\$ 1,647,610
2. Amortization of UAAL at EOY	<u>3,008,051</u>	<u>279,591</u>	<u>3,287,642</u>
3. Annual Required Contribution (ARC)	\$ 4,399,453	\$ 535,800	\$ 4,935,252

Estimated 2012/2013 Annual Required Contribution (ARC)

1. Normal Cost at End of Year (EOY)	\$ 1,497,287	\$ 275,706	\$ 1,772,993
2. Amortization of UAAL at EOY	<u>3,008,051</u>	<u>279,591</u>	<u>3,287,642</u>
3. Annual Required Contribution (ARC)	\$ 4,505,338	\$ 555,297	\$ 5,060,635

Table 2 – Continue Pay-As-You-Go Funding (5.0% Discount Rate)

<u>Liabilities</u>	<u>City Staff</u>	<u>Former Redevelopment</u>	<u>Total</u>
1. Actuarial Liability (AL)			
Actives	\$44,068,472	\$5,565,018	\$49,633,490
Retirees	<u>21,931,743</u>	<u>\$1,402,241</u>	<u>\$23,333,984</u>
Total AL	\$66,000,215	\$6,967,259	\$72,967,474
2. Actuarial Accrued Liability (AAL)			
Actives	\$27,415,689	\$3,263,734	\$30,679,423
Retirees	<u>21,931,743</u>	<u>\$1,402,241</u>	<u>\$23,333,984</u>
Total AAL	\$49,347,432	\$4,665,975	\$54,013,407
3. Actuarial Value of Assets	<u>0</u>	<u>0</u>	<u>0</u>
4. Unfunded AAL (UAAL)	\$49,347,432	\$4,655,975	\$54,013,407
5. Amortization Factor	14.64303	14.64303	14.64303
6. Amortization of UAAL	\$ 3,370,028	\$ 318,648	\$3,688,676

2011/2012 Annual Required Contribution (ARC)

1. Normal Cost at End of Year (EOY)	\$ 2,214,900	\$ 388,451	\$ 2,603,351
2. Amortization of UAAL at EOY	<u>3,370,028</u>	<u>318,648</u>	<u>3,688,676</u>
3. Annual Required Contribution (ARC)	\$ 5,584,928	\$ 707,099	\$ 6,292,027

Estimated 2012/2013 ARC

1. Normal Cost at End of Year (EOY)	\$ 2,325,645	\$ 407,873	\$ 2,733,519
2. Amortization of UAAL at EOY	<u>3,370,028</u>	<u>318,648</u>	<u>3,688,676</u>
3. Annual Required Contribution (ARC)	\$ 5,695,673	\$ 726,521	\$ 6,422,195

Section III. Projected Cash Flows

The valuation process includes the projection of the expected benefits and/or contributions to be paid by the City under its retiree health benefits program. This expected cash flow takes into account the likelihood of each employee reaching age for eligibility to retire and receive health benefits. The projection is performed by applying the turnover assumption to each active employee for the period between the valuation date and the expected retirement date. Once the employees reach their retirement date, a certain percent are assumed to enter the retiree group each year. Employees already over the latest assumed retirement age as of the valuation date are assumed to retire immediately or at first eligibility, if later. The per capita cost as of the valuation date is projected to increase at the applicable healthcare trend rates both before and after the employee's assumed retirement. The projected per capita costs are multiplied by the number of expected future retirees in a given future year to arrive at the cash flow for that year. Also, a certain number of retirees will leave the group each year due to expected deaths and this group will cease to be included in the cash flow from that point forward. Because this is a closed-group valuation, the number of retirees dying each year will eventually exceed the number of new retirees, and the size of the cash flow will begin to decrease and eventually go to zero.

The expected employer cash flows for selected future years are provided in the following tables:

Table 3a - Projected Employer Cash Flows – Benefit Eligible City Staff

<u>Fiscal Year</u>	<u>Future Retirees</u>	<u>Retired Employees</u>	<u>Total</u>
2011/12	\$ 78,505	\$ 1,396,774	\$ 1,475,279
2012/13	\$ 245,181	\$ 1,407,266	\$ 1,652,447
2013/14	\$ 428,160	\$ 1,428,833	\$ 1,856,993
2014/15	\$ 614,621	\$ 1,461,345	\$ 2,075,966
2015/16	\$ 804,303	\$ 1,475,549	\$ 2,279,852
2016/17	\$ 997,447	\$ 1,496,428	\$ 2,493,875
2017/18	\$ 1,199,134	\$ 1,429,788	\$ 2,628,922
2018/19	\$ 1,396,961	\$ 1,425,187	\$ 2,822,148
2019/20	\$ 1,590,005	\$ 1,420,121	\$ 3,010,126
2020/21	\$ 1,764,484	\$ 1,384,762	\$ 3,149,246
2021/22	\$ 1,960,850	\$ 1,391,611	\$ 3,352,461
2022/23	\$ 2,135,703	\$ 1,372,486	\$ 3,508,189
2023/24	\$ 2,313,824	\$ 1,363,195	\$ 3,677,019
2024/25	\$ 2,504,159	\$ 1,342,276	\$ 3,846,435
2025/26	\$ 2,692,533	\$ 1,331,508	\$ 4,024,041
2026/27	\$ 2,875,674	\$ 1,319,427	\$ 4,195,101
2027/28	\$ 3,028,813	\$ 1,295,205	\$ 4,324,018
2028/29	\$ 3,177,298	\$ 1,265,226	\$ 4,442,524
2029/30	\$ 3,369,310	\$ 1,246,156	\$ 4,615,466
2030/31	\$ 3,524,073	\$ 1,219,081	\$ 4,743,154
2031/32	\$ 3,661,838	\$ 1,192,670	\$ 4,854,508
2032/33	\$ 3,793,925	\$ 1,157,870	\$ 4,951,795
2033/34	\$ 3,946,563	\$ 1,124,524	\$ 5,071,087
2034/35	\$ 4,072,180	\$ 1,087,698	\$ 5,159,878
2035/36	\$ 4,181,561	\$ 1,047,453	\$ 5,229,014
2036/37	\$ 4,279,920	\$ 1,003,679	\$ 5,283,599
2037/38	\$ 4,337,935	\$ 956,889	\$ 5,294,824
2038/39	\$ 4,388,638	\$ 907,186	\$ 5,295,824
2039/40	\$ 4,438,525	\$ 854,942	\$ 5,293,467
2040/41	\$ 4,458,848	\$ 800,524	\$ 5,259,372
2050/51	\$ 3,773,544	\$ 280,643	\$ 4,054,187
2060/61	\$ 2,110,424	\$ 27,267	\$ 2,137,691
2070/71	\$ 653,581	\$ 194	\$ 653,775
2080/81	\$ 75,304	\$ 0	\$ 75,304
2090/91	\$ 1,119	\$ 0	\$ 1,119
2100/01	\$ 0	\$ 0	\$ 0
All Years	\$164,596,399	\$43,827,879	\$208,424,278

Table 3b -Projected Employer Cash Flows – Benefit Eligible Former Redevelopment

<u>Fiscal Year</u>	<u>Future Retirees</u>	<u>Retired Employees</u>	<u>Total</u>
2011/12	\$ 12,320	\$ 77,619	\$ 89,939
2012/13	\$ 38,344	\$ 77,019	\$ 115,363
2013/14	\$ 67,434	\$ 82,680	\$ 150,114
2014/15	\$ 97,075	\$ 83,326	\$ 180,401
2015/16	\$ 129,643	\$ 85,110	\$ 214,753
2016/17	\$ 155,795	\$ 88,666	\$ 244,461
2017/18	\$ 174,361	\$ 89,049	\$ 263,410
2018/19	\$ 201,747	\$ 92,268	\$ 294,015
2019/20	\$ 224,445	\$ 95,483	\$ 319,928
2020/21	\$ 240,295	\$ 83,943	\$ 324,238
2021/22	\$ 256,510	\$ 86,464	\$ 342,974
2022/23	\$ 279,917	\$ 85,811	\$ 365,728
2023/24	\$ 288,622	\$ 84,028	\$ 372,650
2024/25	\$ 312,040	\$ 85,774	\$ 397,814
2025/26	\$ 334,110	\$ 87,287	\$ 421,397
2026/27	\$ 344,154	\$ 88,524	\$ 432,678
2027/28	\$ 365,683	\$ 89,435	\$ 455,118
2028/29	\$ 391,254	\$ 89,970	\$ 481,224
2029/30	\$ 405,088	\$ 90,088	\$ 495,176
2030/31	\$ 430,668	\$ 89,741	\$ 520,409
2031/32	\$ 455,761	\$ 88,878	\$ 544,639
2032/33	\$ 477,008	\$ 87,468	\$ 564,476
2033/34	\$ 495,871	\$ 85,510	\$ 581,381
2034/35	\$ 511,821	\$ 83,024	\$ 594,845
2035/36	\$ 514,562	\$ 80,038	\$ 594,600
2036/37	\$ 523,337	\$ 76,576	\$ 599,913
2037/38	\$ 533,765	\$ 72,652	\$ 606,417
2038/39	\$ 537,772	\$ 68,310	\$ 606,082
2039/40	\$ 539,291	\$ 63,643	\$ 602,934
2040/41	\$ 542,079	\$ 58,778	\$ 600,857
2050/51	\$ 432,749	\$ 17,542	\$ 450,291
2060/61	\$ 263,526	\$ 415	\$ 263,941
2070/71	\$ 98,480	\$ 0	\$ 98,480
2080/81	\$ 12,573	\$ 0	\$ 12,573
2090/91	\$ 118	\$ 0	\$ 118
2100/01	\$ 0	\$ 0	\$ 0
All Years	\$20,398,776	\$ 2,904,014	\$23,302,790

Table 3c - Projected Employer Cash Flows – All Benefit Eligible

<u>Fiscal Year</u>	<u>Future Retirees</u>	<u>Retired Employees</u>	<u>Total</u>
2011/12	\$ 90,825	\$ 1,474,393	\$ 1,565,218
2012/13	\$ 283,525	\$ 1,484,285	\$ 1,767,810
2013/14	\$ 495,594	\$ 1,511,513	\$ 2,007,107
2014/15	\$ 711,696	\$ 1,544,671	\$ 2,256,367
2015/16	\$ 933,946	\$ 1,560,659	\$ 2,494,605
2016/17	\$ 1,153,242	\$ 1,585,094	\$ 2,738,336
2017/18	\$ 1,373,495	\$ 1,518,837	\$ 2,892,332
2018/19	\$ 1,598,708	\$ 1,517,455	\$ 3,116,163
2019/20	\$ 1,814,450	\$ 1,515,604	\$ 3,330,054
2020/21	\$ 2,004,779	\$ 1,468,705	\$ 3,473,484
2021/22	\$ 2,217,360	\$ 1,478,075	\$ 3,695,435
2022/23	\$ 2,415,620	\$ 1,458,297	\$ 3,873,917
2023/24	\$ 2,602,446	\$ 1,447,223	\$ 4,049,669
2024/25	\$ 2,816,199	\$ 1,428,050	\$ 4,244,249
2025/26	\$ 3,026,643	\$ 1,418,795	\$ 4,445,438
2026/27	\$ 3,219,828	\$ 1,407,951	\$ 4,627,779
2027/28	\$ 3,394,496	\$ 1,384,640	\$ 4,779,136
2028/29	\$ 3,568,552	\$ 1,355,196	\$ 4,923,748
2029/30	\$ 3,774,398	\$ 1,336,244	\$ 5,110,642
2030/31	\$ 3,954,741	\$ 1,308,822	\$ 5,263,563
2031/32	\$ 4,117,599	\$ 1,281,548	\$ 5,399,147
2032/33	\$ 4,270,933	\$ 1,245,338	\$ 5,516,271
2033/34	\$ 4,442,434	\$ 1,210,034	\$ 5,652,468
2034/35	\$ 4,584,001	\$ 1,170,722	\$ 5,754,723
2035/36	\$ 4,696,123	\$ 1,127,491	\$ 5,823,614
2036/37	\$ 4,803,257	\$ 1,080,255	\$ 5,883,512
2037/38	\$ 4,871,700	\$ 1,029,541	\$ 5,901,241
2038/39	\$ 4,926,410	\$ 975,496	\$ 5,901,906
2039/40	\$ 4,977,816	\$ 918,585	\$ 5,896,401
2040/41	\$ 5,000,927	\$ 859,302	\$ 5,860,229
2050/51	\$ 4,206,293	\$ 298,185	\$ 4,504,478
2060/61	\$ 2,373,950	\$ 27,682	\$ 2,401,632
2070/71	\$ 752,061	\$ 194	\$ 752,255
2080/81	\$ 87,877	\$ 0	\$ 87,877
2090/91	\$ 1,237	\$ 0	\$ 1,237
2100/01	\$ 0	\$ 0	\$ 0
All Years	\$184,995,175	\$46,731,893	\$231,727,068

Section IV. Funding Analysis

There are multiple ways to approach the funding of a retiree health plan. The annual required contribution (ARC) is one method, of many, that could be used to pre-fund benefits. The ARC amount will fluctuate from year to year based on the asset performance and as the population matures.

Presented below are other alternatives to pre-fund the City obligation (the present value of projected benefits – actuarial liability) for its current active employees and retirees using both level-dollar and level-percentage of pay methods.

<u>City Staff</u>	Level Dollar Equivalent			Level Percentage of Pay*		
	<u>20 Years</u>	<u>25 Years</u>	<u>30 Years</u>	<u>20 Years</u>	<u>25 Years</u>	<u>30 Years</u>
<u>5.75% Discount Rate</u>						
Fund Actuarial Liability = \$57.8M:	\$4,933,000	\$4,411,000	\$4,084,000	18.1%	15.3%	13.4%
<u>5% Discount Rate</u>						
Fund Actuarial Liability = \$66.0M:	\$5,296,000	\$4,683,000	\$4,294,000	19.3%	16.0%	13.9%
<u>7.61% Discount Rate</u>						
Fund Actuarial Liability = \$43.0M:	\$4,248,000	\$3,890,000	\$3,675,000	15.8%	13.8%	12.5%

<u>Former Redevelopment</u>	Level Dollar Equivalent			Level Percentage of Pay*		
	<u>20 Years</u>	<u>25 Years</u>	<u>30 Years</u>	<u>20 Years</u>	<u>25 Years</u>	<u>30 Years</u>
<u>5.75% Discount Rate</u>						
Fund Actuarial Liability = \$6.0M:	\$517,000	\$462,000	\$428,000	10.9%	9.2%	8.1%
<u>5% Discount Rate</u>						
Fund Actuarial Liability = \$7.0M:	\$559,000	\$494,000	\$453,000	11.7%	9.7%	8.4%
<u>7.61% Discount Rate</u>						
Fund Actuarial Liability = \$4.4M:	\$436,000	\$399,000	\$377,000	9.4%	8.2%	7.4%

*Includes all benefit eligible employees & assumes 3.25% wage inflation

<u>All Benefit Eligible</u>	Level Dollar Equivalent			Level Percentage of Pay*		
	<u>20 Years</u>	<u>25 Years</u>	<u>30 Years</u>	<u>20 Years</u>	<u>25 Years</u>	<u>30 Years</u>
<u>5.75% Discount Rate</u>						
Fund Actuarial Liability = \$63.8M:	\$5,450,000	\$4,873,000	\$4,512,000	17.0%	14.4%	12.6%
<u>5% Discount Rate</u>						
Fund Actuarial Liability = \$73.0M:	\$5,855,000	\$5,177,000	\$4,747,000	18.2%	15.1%	13.1%
<u>7.61% Discount Rate</u>						
Fund Actuarial Liability = \$47.4M:	\$4,684,000	\$4,289,000	\$4,052,000	14.9%	13.0%	11.8%

*Includes all benefit eligible employees & assumes 3.25% wage inflation

We have listed below some financial advantages that may be achieved pre-funding retiree health benefits. Of course, pre-funding will have to be weighed against alternative uses of the contribution amounts.

- The earlier contributions are made, the less contributions in aggregate will have to be made to fulfill the City's obligations.
- Depending on the investment strategy for funds, a higher discount rate may be used for the actuarial valuation resulting in lower OPEB liabilities.
- Pre-funding can mitigate any resulting adverse impact on credit rating that could result from disclosure of OPEB liabilities.
- Pre-funding may provide additional benefit security to current and future retirees.

Section V. Benefit Plan Provisions

This study analyzes the post-employment benefits provided by the City.

The City contributes to the retiree health coverage of eligible retirees and eligible surviving spouses. The City's financial obligation is to pay for the retiree and eligible dependent coverage up to a monthly maximum. The City will pay medical premium increases of the highest full-family HMO rate up to a cap of 15% for subsequent contract years. The maximum City contribution varies by employee group. For employees who are members of the Supervisors Association, Association of Management Employees, Association of Confidential Employees or the Professional Association the maximum is \$1,297 in 2011 and \$1,333 in 2012. For all other employee groups except unclassified/part-time employees the maximum is \$1,110 in 2011 and 2012. Future maximums are limited to a maximum increase of 10%. Unclassified/part-time employees are eligible for the minimum required employer contribution under the CalPERS Health Plan. The CalPERS minimum required contribution is \$108 per month in 2011, \$112 per month in 2012 and is scheduled to increase by medical price inflation future years.

An employee is eligible for the City contribution provided they are vested in their CalPERS pension benefit and commence payment of their pension benefit within 120 days of retirement with the City. Vesting requires at least 5 years of PERS eligible service. The surviving spouse of an eligible retiree who elected spouse coverage under CalPERS is eligible for the employer contribution upon the death of the retiree.

Premium Rates

The City participates in the CalPERS Health Program, a community-rated program, for medical coverage. The tables below summarize the calendar 2011 and 2012 monthly medical premiums for the primary medical plans in which the retirees are enrolled.

2011 Los Angeles Region	Kaiser	BS HMO	BS NVP HMO	PERS Care	PERS Select	PERS Choice
Retiree Only	\$434.00	\$496.93	\$427.58	\$787.24	\$433.87	\$496.15
Retiree Plus Spouse	\$868.00	\$993.86	\$855.16	\$1,574.48	\$867.74	\$992.30
Retiree Plus Family	\$1,128.40	\$1,292.02	\$1,111.71	\$2,046.82	\$1,128.06	\$1,289.99
Retiree Only- Medicare	\$282.30	\$337.88	\$337.88	\$433.66	\$375.88	\$375.88
Retiree Plus Spouse – Medicare	\$564.60	\$675.76	\$675.76	\$867.32	\$751.76	\$751.76
Retiree Plus Spouse – Mixed	\$716.30	\$834.81	\$765.46	\$1,220.90	\$809.75	\$872.03

2012 Los Angeles Region	Kaiser	BS HMO	BS NVP HMO	PERS Care	PERS Select	PERS Choice
Retiree Only	\$465.63	\$510.72	\$439.25	\$906.39	\$429.22	\$505.63
Retiree Plus Spouse	\$931.26	\$1,021.44	\$878.50	\$1,812.78	\$858.44	\$1,011.26
Retiree Plus Family	\$1,210.64	\$1,327.87	\$1,142.05	\$2,356.61	\$1,115.97	\$1,314.64
Retiree Only- Medicare	\$277.81	\$337.99	\$337.99	\$432.43	\$383.44	\$383.44
Retiree Plus Spouse – Medicare	\$555.62	\$675.98	\$675.98	\$864.86	\$766.88	\$766.88
Retiree Plus Spouse – Mixed	\$743.44	\$848.71	\$777.24	\$1,338.82	\$812.66	\$889.07

Note: Above rates reflect the early retirement rate subsidies that apply to the 2011 and 2012 rates for early retirees. Continuation of the rate subsidies is dependent on available federal funding through 2014.

Section VI. Valuation Data

The valuation was based on the census furnished to us by the City. The following tables display the age distribution for retirees and the age/service distribution for active employees as of the Measurement Date.

Age Distribution of Eligible Retired Participants & Beneficiaries

	City	Former Redevelopment	Total
<50	3	0	3
50-54	5	1	6
55-59	15	1	16
60-64	42	3	45
65-69	40	2	42
70-74	24	1	25
75-79	24	1	25
80-84	21	0	21
85+	<u>14</u>	<u>0</u>	<u>14</u>
Total:	188	9	197
Average Age:	70.1	64.5	69.9
Average Retirement Age:	57.6	60.1	57.7

*Count excludes 17 retirees who were reported as not eligible for coverage.

Age/Service Distribution of Eligible Active Employees

Age	Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	
20-24	20	4								24
25-29	20	14								34
30-34	15	23	7							45
35-39	12	21	13	4						50
40-44	14	27	21	1	4	1				68
45-49	11	18	20	5	12	5				71
50-54	12	11	17	4	10	8	7	2		71
55-59	4	20	20	2	5	8	6	3		68
60-64	10	12	8	1	3	4	3	2		43
65-69	3	6	3	0	2	1	0	0	0	15
70+	<u>2</u>	<u>10</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>16</u>
Total:	123	166	110	17	36	28	17	8	0	505
Average Age:			46.6							
Average Service:			11.0							

Age/Service Distribution of Eligible Active Classified City Employees

Age	Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	
20-24	1									1
25-29	1	4								5
30-34	5	12	6							23
35-39	7	11	13	4						35
40-44	2	14	19	1	4	1				41
45-49	9	7	18	5	10	5				54
50-54	1	8	15	3	9	7	7	2		52
55-59	2	8	19	1	5	7	5	2	0	49
60-64	3	3	8	1	3	4	3	2	0	27
65-69	1	3	3	0	2	1	0	0	0	10
70+	0	1	1	0	0	1	1	1	0	5
Total:	32	71	102	15	33	26	16	7	0	302
Average Age:			49.0							
Average Service:			14.3							

Age/Service Distribution of Eligible Active Unclassified/Part-time City Employees

Age	Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	
20-24	19	4								23
25-29	16	10	0							26
30-34	10	10	0							20
35-39	2	9	0	0						11
40-44	9	13	0	0	0					22
45-49	1	11	0	0	0	1				13
50-54	10	1	1	0	0	0				12
55-59	2	10	0	0	0	0				12
60-64	4	7	0	0	0	0	0			11
65-69	2	3	0	0	0	0	0	0		5
70+	1	8	0	0	0	0	0	0	0	9
Total:	76	86	1	0	0	1	0	0	0	164
Average Age:			41.7							
Average Service:			4.8							

Age/Service Distribution of Eligible Active Former Redevelopment Employees

Age	Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	
20-24	0									0
25-29	3									3
30-34	0	1	1							2
35-39	3	1	0							4
40-44	3	0	2							5
45-49	1	0	2	0	1					4
50-54	1	2	1	1	1	1				7
55-59	0	2	1	1	0	1	1	1		7
60-64	3	2	0	0	0	0	0	0		5
65-69	0	0	0	0	0	0	0	0	0	0
70+	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
Total:	15	9	7	2	2	2	1	1	0	39
Average Age:			49.4							
Average Service:			11.0							

Section VII. Actuarial Assumptions and Methods

The liabilities set forth in this report are based on the actuarial assumptions described in this section.

Fiscal Year:	July 1 st to June 30 th
Measurement Date:	June 30, 2011
ARC Period:	FY2011/12 and FY2012/13
Funding Policy:	The City intends to contribute \$3,384,670 to the CERBT in 2011/12, \$1,000,000 in 2012/13 and 1% of payroll commencing in 2013/14. These amounts are in addition to their pay-as-you-go payments for current retirees.
Asset Return:	7.61% per annum. This discount rate assumes the City pre-funds using the California Employers' Retiree Benefit Trust (CERBT) investment strategy 1
Discount Rate:	Results are based on a blended discount rate of 5.75% reflecting the City's current funding policy. Alternative results using 7.61% to reflect fully funding the annual required contribution and 5% to reflect pay-as-you-go funding are also provided.
Salary Increases:	3.25% per annum, in aggregate

Pre-retirement Turnover: According to the termination rates under the CalPERS pension plan. Sample rates for Miscellaneous employees are as follows:

Service	Entry Age			
	20	30	40	50
0	17.42%	16.06%	14.68%	13.32%
5	8.68%	7.11%	5.54%	0.97%
10	6.68%	5.07%	0.71%	0.38%
15	5.03%	3.47%	0.23%	0.04%
20	3.70%	0.21%	0.05%	0.01%
25	2.29%	0.05%	0.01%	0.01%
30	0.05%	0.01%	0.01%	0.01%

Pre-retirement Mortality: According to the pre-retirement mortality rates under the CalPERS pension plan. Sample deaths per 1,000 employees applicable to Miscellaneous employees are as follows:

Age	Males	Females
25	0.5	0.3
30	0.5	0.4
35	0.7	0.5
40	0.9	0.7
45	1.2	0.9
50	1.8	1.3
55	2.6	1.8
60	4.0	2.7

Post-retirement Mortality: According to the post-retirement mortality rates under the CalPERS pension plan. Sample deaths per 1,000 employees applicable to non-disabled retirees are as follows:

Age	Males	Females
55	4.7	2.4
60	7.2	4.3
65	10.7	7.8
70	16.8	12.4
75	30.8	20.7
80	52.7	37.5
85	97.8	70.1
90	167.5	124.0

Retirement Rates:

According to the retirement rates under the CalPERS pension plan. Sample retirement rates for Miscellaneous employees under the 3.0% @60 pension formula are as follows:

Age	15	20	25	30	35
50	4.0%	4.8%	5.5%	6.2%	6.9%
51	3.2%	3.8%	4.3%	4.9%	5.4%
52	3.0%	3.5%	4.0%	4.6%	5.1%
53	3.8%	4.5%	5.2%	5.9%	6.5%
54	6.0%	7.0%	8.1%	9.1%	10.2%
55	12.8%	15.0%	17.3%	19.5%	21.8%
56	8.5%	10.0%	11.5%	13.0%	14.5%
57	9.4%	11.0%	12.7%	14.3%	16.0%
58	11.1%	13.0%	15.0%	16.9%	18.9%
59	12.3%	14.5%	16.7%	18.9%	21.0%
60	14.5%	17.0%	19.6%	22.1%	24.7%
61	13.6%	16.0%	18.4%	20.8%	23.2%
62	19.6%	23.0%	26.5%	29.9%	33.4%
63	17.0%	20.0%	23.0%	26.0%	29.0%
64	17.0%	20.0%	23.0%	26.0%	29.0%
65	23.0%	27.0%	31.1%	35.1%	39.2%
66	17.0%	20.0%	23.0%	26.0%	29.0%
67	17.0%	20.0%	23.0%	26.0%	29.0%
68	17.0%	20.0%	23.0%	26.0%	29.0%
69	17.0%	20.0%	23.0%	26.0%	29.0%
70	20.4%	24.0%	27.6%	31.2%	34.8%
71	20.4%	24.0%	27.6%	31.2%	34.8%
72	20.4%	24.0%	27.6%	31.2%	34.8%
73	20.4%	24.0%	27.6%	31.2%	34.8%
74	20.4%	24.0%	27.6%	31.2%	34.8%
75	100.0%	100.0%	100.0%	100.0%	100.0%

* The percentage refers to the probability that an active employee who has reached the stated age will retire within the following year.

Sample retirement rates for Miscellaneous employees under the 2.7% @55 pension formula are as follows:

Age	15	20	25	30	35
50	4.3%	5.0%	5.8%	6.5%	7.3%
51	3.4%	4.0%	4.6%	5.2%	5.8%
52	3.4%	4.0%	4.6%	5.2%	5.8%
53	4.3%	5.0%	5.8%	6.5%	7.3%
54	6.8%	8.0%	9.2%	10.4%	11.6%
55	14.0%	16.5%	19.0%	21.5%	23.9%
56	9.4%	11.0%	12.7%	14.3%	16.0%
57	9.8%	11.5%	13.2%	15.0%	16.7%
58	11.5%	13.5%	15.5%	17.6%	19.6%
59	12.8%	15.0%	17.3%	19.5%	21.8%
60	13.6%	16.0%	18.4%	20.8%	23.2%
61	13.2%	15.5%	17.8%	20.2%	22.5%
62	19.1%	22.5%	25.9%	29.3%	32.6%
63	16.6%	19.5%	22.4%	25.4%	28.3%
64	16.6%	19.5%	22.4%	25.4%	28.3%
65	22.5%	26.5%	30.5%	34.5%	38.4%
66	16.6%	19.5%	22.4%	25.4%	28.3%
67	16.6%	19.5%	22.4%	25.4%	28.3%
68	16.6%	19.5%	22.4%	25.4%	28.3%
69	16.6%	19.5%	22.4%	25.4%	28.3%
70	19.9%	23.4%	26.9%	30.4%	33.9%
71	19.9%	23.4%	26.9%	30.4%	33.9%
72	19.9%	23.4%	26.9%	30.4%	33.9%
73	19.9%	23.4%	26.9%	30.4%	33.9%
74	19.9%	23.4%	26.9%	30.4%	33.9%
75	100.0%	100.0%	100.0%	100.0%	100.0%

* The percentage refers to the probability that an active employee who has reached the stated age will retire within the following year.

Sample retirement rates for Miscellaneous employees under the 2.0%
@55 pension formula are as follows:

Age	15	20	25	30	35
50	2.4%	2.9%	3.3%	3.9%	4.4%
51	2.0%	2.4%	2.7%	3.3%	3.7%
52	2.2%	2.7%	3.0%	3.6%	4.0%
53	2.7%	3.2%	3.7%	4.3%	4.9%
54	4.1%	4.9%	5.6%	6.7%	7.6%
55	7.8%	9.4%	10.7%	12.7%	14.3%
56	6.9%	8.3%	9.5%	11.3%	12.7%
57	7.4%	9.0%	10.2%	12.2%	13.7%
58	8.0%	9.7%	11.0%	13.1%	14.8%
59	9.2%	11.1%	12.7%	15.1%	16.9%
60	11.2%	13.4%	15.3%	18.2%	20.5%
61	13.7%	16.5%	18.8%	22.4%	25.2%
62	19.7%	23.7%	27.0%	32.2%	36.2%
63	19.9%	23.9%	27.3%	32.5%	36.6%
64	18.0%	21.6%	24.7%	29.4%	33.0%
65	26.9%	32.3%	36.9%	43.9%	49.4%
66	20.8%	25.0%	28.5%	34.0%	38.2%
67	20.6%	24.7%	28.2%	33.6%	37.8%
68	18.2%	21.9%	25.0%	29.7%	33.4%
69	17.9%	21.5%	24.6%	29.3%	32.9%
70	21.4%	25.7%	29.3%	34.9%	39.3%
71	14.5%	17.5%	20.0%	23.8%	26.7%
72	16.0%	19.2%	22.0%	26.1%	29.4%
73	12.9%	15.5%	17.7%	21.1%	23.7%
74	10.0%	12.0%	13.7%	16.3%	18.3%
75	100.0%	100.0%	100.0%	100.0%	100.0%

* The percentage refers to the probability that an active employee who has reached the stated age will retire within the following year.

Participation Rates: 100% of eligible active employees are assumed to elect medical coverage at retirement. Of those electing coverage, 50% of those electing coverage are assumed to elect HMO coverage and the remaining 50% are assumed to elect PPO coverage. Actual plan coverage is used for current retirees.

Unclassified/Part-time employees are assumed to either terminate employment with the City prior to eligibility for retiree health benefits or to decline coverage at retirement due to the high retiree contribution required.

Spouse Coverage: 50% of future retirees are assumed to elect coverage for their spouse. Male spouses are assumed to be 3 years older than female spouses. Actual spouse coverage and spouse ages are used for current retirees.

Dependent Coverage: Not explicitly valued.

Claim Cost Development: The valuation claim costs are based on the premiums paid for medical insurance coverage. The City participates in the CalPERS Health Plan, a community rated plan. The valuation assumes the City is exempt from the valuation of any medical plan rate subsidy.

Medical Trend Rates: Medical costs are adjusted in future years by the following trends:

Year	PPO	HMO
2013	7.5%	7.0%
2014	7.0%	6.5%
2015	6.5%	6.0%
2016	6.0%	5.5%
2017	5.5%	5.0%
2018+	5.0%	5.0%

City Contribution: The CalPERS minimum required contribution is assumed to increase 4% per year. The City's maximum contribution is assumed to increase at the ultimate medical trend rate in future years.

[Prior valuation assumed 5%]



Actuarial Cost Method: The actuarial cost method used is the Projected Unit Credit with service prorated. Under this method, the Actuarial Accrued Liability is the present value of projected benefits multiplied by the ratio of benefit service as of the valuation date to the projected benefit service at retirement, termination, disability or death. The Normal Cost for a plan year is the expected increase in the Accrued Liability during the plan year.

All employees eligible as of the measurement date in accordance with the provisions of the plan listed in the data provided by the City were included in the valuation.

Actuarial Value of Assets: There are no GASB eligible assets as of the valuation date.

Amortization of UAAL: The unfunded actuarial accrued liability is being amortized over an initial 30 years using the level-dollar method. The remaining period at June 30, 2011 is assumed to be 27 years.

Section VIII. Actuarial Certification

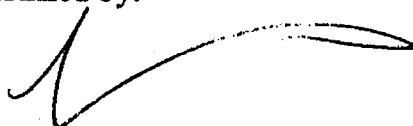
The results set forth in this report are based on the actuarial valuation of the retiree health benefits program of the City of Carson "City") as of June 30, 2011.

The valuation was performed in accordance with generally accepted actuarial principles and practices and in accordance with GASB Statements No. 43 & 45. We relied on census data for active employees and retirees provided to us by the City. We also made use of plan information, premium information, and enrollment information provided to us by the City.

The assumptions used in performing the valuation, as summarized in this report, and the results based thereupon, represent our best estimate of anticipated experience and actuarial cost of the retiree health benefits program.

I am a member of the American Academy of Actuaries and believe I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Certified by:



Marilyn K. Jones, ASA, EA, MAAA, FCCA Date: 6/20/12
Vice President and Actuary

RESOLUTION NO. 12-014

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
CARSON, CALIFORNIA, SETTING FORTH CERTAIN
FINANCIAL PRINCIPLES UPON WHICH THE CITY SHALL
OPERATE AND ADOPTING CERTAIN IMPLEMENTING
GUIDELINES TO ACCOMPLISH THE SAME**

WHEREAS, it is the desire of the City Council to establish certain generalized principles governing the financial affairs of the city of Carson; and

WHEREAS, the adoption of such principles is intended to provide city staff with guidance in preparing and submitting the annual budget for the City; and

WHEREAS, the City Council further desires to adopt certain financial policies that are necessary and appropriate to implement the financial principles articulated herein; and

WHEREAS, the City Council further desires to adopt financial policies that will assure that the city of Carson shall continue to enjoy a high level of credit worthiness and be eligible for the highest bond rating; and

NOW, THEREFORE, the City Council of the city of Carson resolves as follows:

Section 1. The foregoing Recitals are true and correct and are incorporated herein.

Section 2. The City Council of the city of Carson hereby adopts the following financial principles, which principles shall guide the preparation, consideration, adoption, and implementation of the annual city budget, to wit:

(a) It shall be the policy of the city of Carson, acting through its duly elected City Council, to adopt a balanced operating budget by June 30th of each year for the following fiscal year without using General Fund undesignated fund balances or reserves. The budget thus adopted shall include expenditures necessary to provide for the well-being and safety of the community subject to available revenues; and

(b) It shall be the further policy of the city of Carson, acting through its duly elected City Council, that fees for services shall be updated annually to recover, as much as possible, the cost of providing the services and to allow for the impacts of inflation, with fees not exceeding the cost of providing the service. In some instances, the City may elect to not recover the full cost of providing the service and the City Council shall determine the appropriate cost recovery level for those individual services; and

(c) It shall be the further policy of the city of Carson, acting through its duly elected City Council, that revenues in excess of expenditures at the end of a fiscal year shall be used first to satisfy the general fund reserve requirements, capital project reserves, capital equipment reserves, and liability reserves before being appropriated for other uses; and

EXHIBIT NO. 03

(d) It shall be the further policy of the city of Carson, acting through its duly elected City Council, that current year operating expenditures shall be funded by current year operating revenues; and

(e) It shall be the further policy of the city of Carson, acting through its duly elected City Council that the City shall honor all of its debt and seek to maintain the highest possible bond rating to minimize issuance and interest costs to the City.

Section 3. In order to effectively implement the forgoing statement of financial principles, the following shall be, and hereby are, adopted as policies of the City Council that staff shall adhere to in the preparation, consideration, adoption, and implementation of the annual city budget, to wit:

(a) General City Financial Policies

1. It shall be the policy of the city of Carson to value its employees as one of its most important assets and compensate them at an appropriate level and commensurately with the City's ability to pay; and
2. It shall be the further policy of the city of Carson to establish, and then maintain, a "minimum reserve" for economic uncertainties equal to 20% of expenditures of the current year General Fund budget exclusive of Nonspendable, Restricted, and Assigned fund balance.
3. In addition to meeting contingency needs, it shall be the further policy of the city of Carson that the General Fund reserve shall provide for a certain level of investment earnings and shall serve as a cash flow reserve.
4. It shall be the further policy of the city of Carson to provide for capital equipment replacement to achieve greater efficiency and effectiveness in its operations.
5. It shall be the further policy of the city of Carson to utilize one time revenues for one-time expenditures or to enhance reserve funds as appropriate or necessary.
6. It shall be the further policy of the city of Carson to maintain, replace, and improve its infrastructure and the City shall set aside a reasonable and prudent amount of General Fund monies for capital projects including repair of various facilities as part of its annual budget process to the greatest extent possible.

(b) Revenues & Expenditures Policies

1. It shall be the policy of the city of Carson to use conservative estimates of revenues to maintain financial flexibility.



2. It shall be the further policy of the city of Carson to continue to explore revenue-raising alternatives as necessary and shall pursue grants available to local government.
3. It shall be the further policy of the city of Carson that programs that are funded through user fees shall be self-supporting to the greatest extent possible or at a level proscribed by the City Council.
4. It shall be the further policy of the city of Carson to ensure that there is full recovery of overhead and internal services from grant and special or enterprise funds to the greatest extent possible and as permitted by the restrictions associated with each fund.

(c) Special Revenue, Enterprise, and Internal Service Funds Policies

1. It shall be the policy of the city of Carson to abide by applicable rules and regulations pertaining to the expenditures of special revenue funds as required by each funding source.
2. It shall be the further policy of the city of Carson that so-called "Enterprise activities" shall be programmed to generate sufficient revenues to support the Enterprise's operations including overhead and internal services, debt service requirements, and current and future capital needs.
3. It shall be the further policy of the city of Carson that Special Revenue and Enterprise Funds shall adhere to all other applicable fiscal policies of the City.
4. It shall be the further policy of the city of Carson to establish Internal Service Funds as appropriate to ensure cost recovery on a fair and justifiable basis.
5. It shall be the further policy of the city of Carson that transfers to the General Fund from other funds for overhead costs shall be reviewed annually and shall conform to the Office of Management & Budget A-97 Guidelines.

(d) Debt Policies

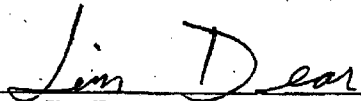
1. It shall be the policy of the city of Carson to strive to incur debt only for capital improvement projects and only if the project cannot be funded by recurring or one-time revenues.
2. It shall be the further policy of the city of Carson that proceeds from long term debt shall not be used for current on-going expenditures.
3. It shall be the further policy of the city of Carson not to use short-term borrowing for operating expenditures unless it is a Tax & Revenue Anticipation Note or other short-term cash flow borrowing.



4. It shall be the further policy of the city of Carson that use of the General Fund as security for debt issues should be limited to the greatest extent possible to capital projects which serve the general benefit of the City.

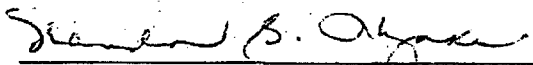
Section 4. The City Clerk shall cause a copy of this Resolution to be posted in a prominent location on the city of Carson web site.

PASSED, APPROVED, and ADOPTED this 18th day of January, 2012.



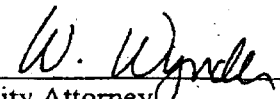
Mayor Jim Dear

ATTEST:



Chief Deputy City Clerk Wanda S. Higaki

APPROVED AS TO FORM:



City Attorney

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) ss.
CITY OF CARSON)

I, Wanda S. Higaki, Chief Deputy City Clerk of the City of Carson, California, do hereby certify that the whole number of members of the City Council is five; that the foregoing resolution, being Resolution No. 12-014 was duly and regularly adopted by said Council at a regular meeting duly and regularly held on the 18th day of January, 2012, and that the same was passed and adopted by the following vote:

AYES:	COUNCIL MEMBERS:	Mayor Dear, Ruiz-Raber, Santarina, Gipson and Davis-Holmes
NOES:	COUNCIL MEMBERS:	None
ABSTAIN:	COUNCIL MEMBERS:	None
ABSENT:	COUNCIL MEMBERS:	None



Chief Deputy City Clerk Wanda S. Higaki