BUDGET COMMITTEE

MEETING AGENDA

January 15, 2014

3:00 p.m.

Location: Building 4, Conference Rm. #2460 **Time: 3:00 p.m. – 4:30 p.m.**

Committee Members:

Mike Gregoryk, Chair	Mark Fernandez	Johnny Jauregui	Lance Heard
Rosa Royce, Co-Chair	Martin Ramey	Edmond Xiong (Student)	Bill Scroggins (Guest)
Irene Malmgren	Michelle Sampat	Justin Lin (Student)	
Audrey Yamagata-Noji	Richard McGowan	Gary Nellesen	Kerry Martinez (Notes)

AGENDA ITEMS:

1. **Agenda Check**

2. **Review Joint Committee Meeting Summary of December 4, 2013**

3. **2014-15 Governor's Budget Highlights**

4. **Presentation of Mt. SAC's Actuarial Study – Geoff Kischuk – Total Compensation Systems, Inc. and Gema Ptasinski – Vicenti, Llloyd, Stutzman**

NON-ECONOMIC ASSUMPTIONS:

Economic assumptions are set under the guidance of Actuarial Standard of Practice 35 (ASOP 35).

MORTALITY

Employee Type	*Mortality Tables*
Certificated	2009 CalSTRS Mortality
Classified	2009 CalPERS Mortality for Miscellaneous Employees
Management	

RETIREMENT RATES

Employee Type	*Retirement Rate Tables*
Certificated	2009 CalSTRS Retirement Rates
Classified	2009 CalPERS Retirement Rates for School Employees
Management	

VESTING RATES

Employee Type	*Vesting Rate Tables*
Certificated	100% at 5 Years of Service
Classified	100% at 5 Years of Service
Management	100% at 5 Years of Service

COSTS FOR RETIREE COVERAGE

There was not sufficient information available to determine whether there is an implicit subsidy for retiree health costs. Based on ASOP 6, there can be justification for using "community-rated" premiums as the basis for the valuation where the insurer is committed to continuing rating practices. This is especially true where sufficient information is not available to determine the magnitude of the subsidy. However, Mount San Antonio CCD should recognize that costs and liabilities in this report could change significantly if either the current insurer changes rating practices or if Mount San Antonio CCD changes insurers.

Retiree liabilities are based on actual retiree costs. Liabilities for active participants are based on the first year costs shown below. Subsequent years' costs are based on first year costs adjusted for trend and limited by any District contribution caps.

	Faculty	**Classified**	**Management**
Current Retirees: based on actual costs			
Current Plan:			
Future Retirees Pre-65	$7,557	$7,557	$7,557
Future Retirees Post-65	$5,108	$4,461	$5,188

PARTICIPATION RATES

Employee Type	*<65 Non-Medicare Participation %*	*65+ Medicare Participation %*
Certificated	100%	100%
Miscellaneous	100%	100%

TURNOVER

Employee Type	*Turnover Rate Tables*
Certificated	2009 CalSTRS Termination Rates
Classified	2009 CalPERS Turnover for Miscellaneous Employees
Management	Based on applicable table bove

SPOUSE PREVALENCE

To the extent not provided and when needed to calculate benefit liabilities, 80% of retirees assumed to be married at retirement. After retirement, the percentage married is adjusted to reflect mortality.

SPOUSE AGES

To the extent spouse dates of birth are not provided and when needed to calculate benefit liabilities, female spouse assumed to be three years younger than male.

AGING FACTORS

Attained Age	*Medical Annual Increases*
50-64	3.5%
65-69	3.0%
70-74	2.5%
75-79	1.5%
80-84	0.5%
85+	0.0%

APPENDIX D: DISTRIBUTION OF ELIGIBLE PARTICIPANTS BY AGE

ELIGIBLE ACTIVE EMPLOYEES

Age	*Total*	*Certificated*	*Classified*	*Management*
Under 25	1	0	1	0
25-29	26	5	20	1
30-34	83	20	55	8
35-39	119	51	58	10
40-44	142	72	60	10
45-49	160	73	71	16
50-54	144	52	69	23
55-59	125	55	58	12
60-64	87	47	27	13
65 and older	26	15	9	2
Total	913	390	428	95

ELIGIBLE RETIREES

Age	*Total*	*Certificated*	*Classified*	*Management*
Under 50	5	0	5	0
50-54	5	0	5	0
55-59	25	5	19	1
60-64	78	27	49	2
65-69	102	54	41	7
70-74	103	54	38	11
75-79	84	32	44	8
80-84	73	30	32	11
85-89	56	29	16	11
90 and older	15	7	4	4
Total	546	238	253	55

APPENDIX E: CALCULATION OF GASB 43/45 ACCOUNTING ENTRIES

This report is to be used to calculate accounting entries rather than to provide the dollar amount of accounting entries. How the report is to be used to calculate accounting entries depends on several factors. Among them are:

1) The amount of prior accounting entries;

2) Whether individual components of the ARC are calculated as a level dollar amount or as a level percentage of payroll;

3) Whether the employer using a level percentage of payroll method elects to use for this purpose projected payroll, budgeted payroll or actual payroll;

4) Whether the employer chooses to adjust the numbers in the report to reflect the difference between the valuation date and the first fiscal year for which the numbers will be used.

To the extent the level percentage of payroll method is used, the employer should adjust the numbers in this report as appropriate to reflect the change in OPEB covered payroll. It should be noted that OPEB covered payroll should only reflect types of pay generating pension credits for plan participants. Please note that plan participants do not necessarily include all active employees eligible for health benefits for several reasons. Following are examples.

1) The number of hours worked or other eligibility criteria may differ for OPEB compared to active health benefits;

2) There may be active employees over the maximum age OPEB are paid through. For example, if an OPEB plan pays benefits only to Medicare age, any active employees currently over Medicare age are not plan participants;

3) Employees hired at an age where they will exceed the maximum age for benefits when the service requirement is met are also not plan participants.

Finally, GASB 43 and 45 require reporting covered payroll in RSI schedules regardless of whether any ARC component is based on the level percentage of payroll method. This report does not provide, nor should the actuary be relied on to report covered payroll.

GASB 45 Paragraph 26 specifies that the items presented as RSI "should be calculated in accordance with the parameters." The RSI items refer to Paragraph 25.c which includes annual covered payroll. Footnote 3 provides that when the ARC is based on covered payroll, the payroll measure may be the projected payroll, budgeted payroll or actual payroll. Footnote 3 further provides that comparisons between the ARC and contributions should be based on the same measure of covered payroll.

At the time the valuation is being done, the actuary may not know which payroll method will be used for reporting purposes. The actuary may not even know for which period the valuation will be used to determine the ARC. Furthermore, the actuary doesn't know if the client will make adjustments to the ARC in order to use it for the first year of the biennial or triennial period. (GASB 45 is silent on this.) Even if the actuary were to know all of these things, it would be a rare situation that would result in me knowing the appropriate covered payroll

number to report. For example, if the employer uses actual payroll, that number would not be known at the time the valuation is done.

As a result, we believe the proper approach is to report the ARC components as a dollar amount. It is the client's responsibility to turn this number into a percentage of payroll factor by using the dollar amount of the ARC (adjusted, if desired) as a numerator and then calculating the appropriate amount of the denominator based on the payroll determination method elected by the client for the appropriate fiscal year.

If we have been provided with payroll information, we are happy to use that information to help the employer develop an estimate of covered payroll for reporting purposes. However, the validity of the covered payroll remains the employer's responsibility even if TCS assists the employer in calculating it.

APPENDIX F: GLOSSARY OF RETIREE HEALTH VALUATION TERMS

Note: The following definitions are intended to help a *non*-actuary understand concepts related to retiree health valuations. Therefore, the definitions may not be actuarially accurate.

Actuarial Accrued Liability: The amount of the actuarial present value of total projected benefits attributable to employees' past service based on the actuarial cost method used.

Actuarial Cost Method: A mathematical model for allocating OPEB costs by year of service.

Actuarial Present Value of Total Projected Benefits: The projected amount of all OPEB benefits to be paid to current and future retirees discounted back to the valuation date.

Actuarial Value of Assets: Market-related value of assets which may include an unbiased formula for smoothing cyclical fluctuations in asset values.

Annual OPEB Cost: This is the amount employers must recognize as an expense each year. The annual OPEB expense is equal to the Annual Required Contribution plus interest on the Net OPEB obligation minus an adjustment to reflect the amortization of the net OPEB obligation.

Annual Required Contribution: The sum of the normal cost and an amount to amortize the unfunded actuarial accrued liability. This is the basis of the annual OPEB cost and net OPEB obligation.

Closed Amortization Period: An amortization approach where the original ending date for the amortization period remains the same. This would be similar to a conventional, 30-year mortgage, for example.

Discount Rate: Assumed investment return net of all investment expenses. Generally, a higher assumed interest rate leads to lower normal costs and actuarial accrued liability.

Implicit Rate Subsidy: The estimated amount by which retiree rates are understated in situations where, for rating purposes, retirees are combined with active employees.

Mortality Rate: Assumed proportion of people who die each year. Mortality rates always vary by age and often by sex. A mortality table should always be selected that is based on a similar "population" to the one being studied.

Net OPEB Obligation: The accumulated difference between the annual OPEB cost and amounts contributed to an irrevocable trust exclusively providing retiree OPEB benefits and protected from creditors.

Normal Cost: The dollar value of the "earned" portion of retiree health benefits if retiree health benefits are to be fully accrued at retirement.

OPEB Benefits:	Other PostEmployment Benefits. Generally medical, dental, prescription drug, life, long-term care or other postemployment benefits that are not pension benefits.
Open Amortization Period:	Under an open amortization period, the remaining unamortized balance is subject to a new amortization schedule each valuation. This would be similar, for example, to a homeowner refinancing a mortgage with a new 30-year conventional mortgage every two or three years.
Participation Rate:	The proportion of retirees who elect to receive retiree benefits. A lower participation rate results in lower normal cost and actuarial accrued liability. The participation rate often is related to retiree contributions.
Retirement Rate:	The proportion of active employees who retire each year. Retirement rates are usually based on age and/or length of service. (Retirement rates can be used in conjunction with vesting rates to reflect both age and length of service). The more likely employees are to retire early, the higher normal costs and actuarial accrued liability will be.
Transition Obligation:	The amount of the unfunded actuarial accrued liability at the time actuarial accrual begins in accordance with an applicable accounting standard.
Trend Rate:	The rate at which the cost of retiree benefits is expected to increase over time. The trend rate usually varies by type of benefit (e.g. medical, dental, vision, etc.) and may vary over time. A higher trend rate results in higher normal costs and actuarial accrued liability.
Turnover Rate:	The rate at which employees cease employment due to reasons other than death, disability or retirement. Turnover rates usually vary based on length of service and may vary by other factors. Higher turnover rates reduce normal costs and actuarial accrued liability.
Unfunded Actuarial Accrued Liability:	This is the excess of the actuarial accrued liability over assets irrevocably committed to provide retiree health benefits.
Valuation Date:	The date as of which the OPEB obligation is determined. Under GASB 43 and 45, the valuation date does not have to coincide with the statement date.
Vesting Rate:	The proportion of retiree benefits earned, based on length of service and, sometimes, age. (Vesting rates are often set in conjunction with retirement rates.) More rapid vesting increases normal costs and actuarial accrued liability.

Mt. San Ant‹ .o College
Budget Committee
Summary of January 15, 2014

Committee Members:

☐ Mike Gregoryk, Chair	☐ Michelle Sampat	☐ Edmond Xiong (Student)	☐ Lance Heard
☒ Rosa Royce, Co-Chair	☐ Martin Ramey	☐ Justin Lin (Student)	☐ Bill Scroggins (Guest)
☒ Terri Long for Irene Malmgren	☒ Mark Fernandez	☒ Johnny Jauregui	☒ Geoff Kischuk (Guest)
☒ Audrey Yamagata-Noji	☒ Richard McGowan	☒ Gary Nellesen	☒ Gema Ptasinski (Guest)
			☒ Kerry Martinez (Notes)

ITEM	DISCUSSION/COMMENTS	ACTION/OUTCOME
1. Agenda Check		Approved, as presented.
2. Review Joint Committee Meeting Summary of December 4, 2013	The Joint Committee Meeting Summary of December 4, 2013, was approved, as presented.	Approved, as presented.
3. Mt. SAC's Actuarial Study – Geoff Kischuk – Total Compensation Systems, Inc., and Gema Ptasinski – Vicenti, Lloyd, Stutzman	Rosa Royce introduced Geoff Kischuk and Gema Ptasinski to the Budget Committee members. Geoff explained they have been doing the actuarial study for Mt. SAC since 2002. They work with many of the community colleges in the State of California. Geoff explained that GASB 45 was established to apply the same accounting approach to retiree health benefits that has historically been applied to pensions. The idea is that any kind of benefit given to retirees is a form of deferred compensation and should be accrued as an expense while people are working and then a liability is developed. Bond rating agencies look at the College's audited financial statements and pay special attention to these long-term liabilities when determining what type of rating an institution should receive. Geoff stated that It would be beneficial to the College to establish sound policies and plans that can be conveyed to the bond rating agencies. Geoff stated Mt. SAC is in a good place from of variety of perspectives and is one of the top College's in the State in terms of their funding ratio.	

FUTURE AGENDA ITEMS:

- **Continue Review of the Budget Review and Development Process**
- **Develop Plan to Reduce Retirees' Health Benefits Liability**

FUTURE MEETING DATES:

- **March 5, 2014**
- **March 19, 2014**
- **April 2, 2014**
- **April 16, 2014**

2014-15 Governor's Budget Highlights
Troy, Dan
to:
SO2CBO
01/09/2014 09:05 AM
Hide Details
From: "Troy, Dan" <dtroy@CCCCO.EDU>
To: SO2CBO@LISTSERV.CCCNEXT.NET
Please respond to System Office Memos to CBOs
<SO2CBO@LISTSERV.CCCNEXT.NET>

Colleagues,

An improved economic climate and continued support from Proposition 30 revenues has created a much brighter revenue outlook for public education in general and for the California Community Colleges, more specifically. While there are still many details to be examined in the coming days and weeks, I wanted to share with you some of the key highlights of the Governor's budget proposal for the 2014-15 fiscal year.

Strong growth in the Proposition 98 minimum guarantee - The approved budget for 2013-14 set the K-14 minimum guarantee at $55.3 billion. For 2014-15, that Governor estimates the guarantee at $61.6 billion - a year over year increase of about 11.4%. Additionally, the Governor's estimate finds that the guarantee for the current and prior years was underfunded, providing about $3.3 billion in additional one-time K-14 resources. As noted below, the Governor primarily proposes to use these one-time resources to pay down deferral obligations.

California Community Colleges - The chief budget highlights as they pertain to the CCCs include:

- Access - $155.2 million to fund a 3% restoration of access. The budget proposes that the Board of Governors adopt a formula for local growth allocations that gives priority to districts "identified as having the greatest unmet need in adequately serving their community's higher educational needs." The budget summary states that all districts will be eligible for expanded access and that districts will eventually be restored to pre-recession levels.
- COLA - $48.5 million to fund a statutory COLA of 0.86%.
- Student Success - $200 million to support student success programs and strengthen support for underrepresented students. This includes $100 million for the Student Success and Support Program and $100 million to close gaps in access and achievement for underrepresented students groups, as identified in Student Equity Plans.
- Deferred Maintenance and Instructional Equipment - $175 million to be evenly split between deferred maintenance and instructional equipment.
- Deferrals - $235.6 million in budget year funding to pay down deferrals. Combined with $356.8 million proposed in one-time funds for this purpose, this would completely eliminate the system's inter-year deferrals.
- Proposition 39 - $39 million in funds owing to Proposition 39 to address energy efficiency projects and workforce development.
- Improving Statewide Performance – $2.5 million is provided to provide local technical assistance to support implementation of effective practices in all districts, with priority placed on

underperforming districts. Additionally, the Chancellor's Office, will receive $1.1 million and 9 new positions aid this effort by developing indicators of student success and to monitor performance.

- Flexibility - The Governor proposes to allow districts to reallocate up to 25% of funds from select categorical programs to other federal, state, or local programs to meet the needs of underrepresented student groups as identified in Student Equity Plans.
- RDAs - The Governor proposes to improve the stability of the base apportionment by moving up the deadline for determining the amount of backfill funding necessary to resolve shortfalls stemming from RDA funds. This should help to resolve deficits prior to the end of the fiscal year rather than after the fact. The Governor proposes to initiate this change in the current year, and he provides $38.4 million for 2013-14 and $35.6 million for 2014-15 to account for the shift.
- Apportionment stabilization - As you may know, Proposition 30 requires that each district receive at least $100 per FTES from the Education Protection Account created by the ballot initiative. This resulted in additional unfunded obligations to districts that would not have otherwise received state General Fund. The administration proposes to fund these obligations not only for 2014-15 and subsequent years, but also to backfill obligations from 2012-13 and 2013-14. The Governor attempts to further stabilize the base apportionment by estimating local obligations for FTES stability and restoration costs provided in statute. Broadly, these changes are intended to mitigate structural deficits that have plagued the system in recent years.
- Adult Education - The Governor reiterates his commitment to provide funding in the 2015-16 budget to implement to plans being developed by regional adult education consortia.
- Innovative Models of Higher Education – $50 million in one-time funding (non-Proposition 98) is proposed for incentive awards that recognize models of innovation in higher education that 1) increase the number of students earning bachelor's degrees, 2) increase the number of bachelor's degrees earned within four years, and 3) ease transfer the state's education system.

The Governor does not propose to raise student fees, nor does he propose to fund FTES on completion or to require all students seeking fee waivers to complete a FAFSA. Further, the Governor states the intent to devise a plan in the 2015-16 fiscal year that will resolve the CalSTRS fund shortfall within 30 years.

UC and CSU - The Governor continues the four-year investment plan begun in 2013-14 by funding 5% increases in general fund support for UC and CSU. This equates to an increase of $142.2 million each for the UC Regents and the CSU Board of Trustees. The universities are expected to adopt three-year sustainability plans that set targets for key measures. Further, the Administration reiterates its expectation that current tuition and fee levels are maintained through 2016-17.

K-12 - The Governor proposes to continue making progress toward implementing the newly instituted Local Control Funding Formula. Ongoing K-12 per pupils funds rates expenditures increase to $9,194 in 2014-15, up from $8,469 in the current year. The Governor proposes to eliminate year over year deferrals in K-12 just as he does for the Colleges.

Constitutional Amendment - The K-12 section is further notable for a reference to state's chronic revenue volatility, and states the intent to pursue a constitutional amendment that will "smooth year-to-year school spending to prevent damage caused by cuts." The section further states that the amendment would not change the overall guaranteed level of funding for education.

There are many details to review in the coming days, but these are the major highlights. Keep in mind that we remain several steps removed from an enacted budget. The next steps include the release of budget bills, trailer legislation, review by the Legislative Analyst's Office and by legislative committees. Revenues will revised in May, which sets the table for the passage and approval of a final budget by the end of June. The Chancellor's Office will keep you updated on all major developments.

Regards,
Dan Troy

Vice Chancellor, College Finance and Facilities Planning
California Community Colleges Chancellor's Office

****

January 9, 2014

Sent to CEOs, PIOs, Trustees, and CBOs

2014-15 Budget Talking Points

Restoring Access, With an Eye on Participation Equity

The governor's budget proposal sets aside $155.2 million for "growth in general-purpose apportionments," while recognizing that particular attention needs to be paid to populations that are currently underserved but critical to the state's need for an educated workforce. Additionally, by funding the statutory 0.86% cost-of-living adjustment and providing funding to eliminate an "apportionment shortfall," the plan ensures that colleges can count on actual funding being present to serve students.

Fulfilling the Promise of Institutional Support Leading to Success . . .

The govenor's spending plan continues the modernization of student support in community colleges by proposing an additional $100 million for the Student Success and Support Program (SSSP). This would nearly double the pre-recession funding level for student orientation, assessment, placement, and guidance, enabling colleges to implement best-practice student support mechanisms and interventions to reduce the time-to-degree and increase success rates.

. . . With a Focus on Equity in Student Success.

Across the country, colleges and universities are working to increase success rates for all students, while closing access and achievement gaps among underrepresented students. The governor's budget plan would provide $100 million to close access and achievement gaps as identified in Student Equity Plans, which are developed by local faculty, staff, and students and adopted by community college governing boards.

Addressing Critical Infrastructure Needs

During the recession, California's community colleges prioritized instruction and student support, and essential maintenance and equipment purchases were often postponed. This particurly hurt career-technical education programs, which require current equipment to ensure students are adequately prepared for the workforce. The governor proposes $87.5 million each for maintenance and instructional equipment, which can be used locally to address priority needs.

Promoting and Recognizing Innovation

The proposed budget recognizes that faculty and staff locally in California's community colleges and our four-year campuses are leaders in innovation. The budget sets aside $50 million to recognize effective practices to accellerate higher education completion and intersegmental coordination.

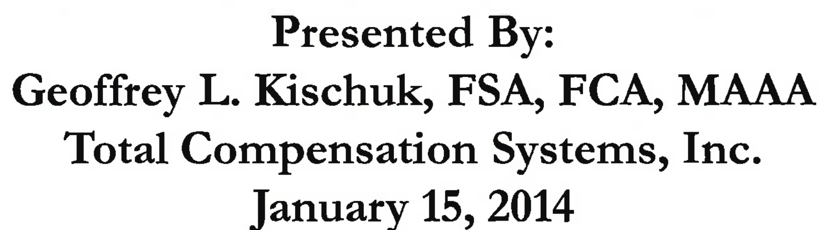
Thanks,

Scott Lay
President and Chief Executive Officer
Orange Coast College '94

Community College League of California
2017 O Street, Sacramento, California 95811
916.444.8641 . www.ccleague.org

Mount San Antonio Community College District

March 1, 2012 GASB 45 Valuation



Presented By:
Geoffrey L. Kischuk, FSA, FCA, MAAA
Total Compensation Systems, Inc.
January 15, 2014

Goal:

- Provide information to allow Mt SAC to understand the most recent GASB 45 valuation and make informed decisions about retiree health benefits

Background

- GASB 45 requires public agencies to account for retiree health benefits like pensions
  - Accrue benefits while people are working
  - Retiree premiums/costs taken from liability
- GASB standards apply to accrual basis financial statements
  - Used in Accreditation reviews
  - Used by bond-rating agencies
- Budgets based on amounts actually paid for retiree benefits
  - Amounts paid for retiree health premiums/costs
  - Contributions to a trust or reserves

Background

- GASB 45 became effective for Mt SAC in the 2007-08 fiscal year
- Mt SAC had periodically evaluated the liabilities before GASB 45 became effective (first TCS valuation in 2002)

Assumptions and Methods: General

- **Assumptions and methods must comply with GASB 45**
- **Assumptions and methods must comply with Actuarial Standards of Practice (ASOP)**

Key Valuation Assumptions

- 5% interest rate assumes 50% funding through custom trust)
- 4% annual increase in retiree costs paid by Mt SAC
- CalPERS and CalSTRS demographic tables (i.e. mortality, turnover and retirement)

Valuation Results at 3/1/14

- Expected 2012-13 retiree premiums: $4.63 million
- Actuarial Accrued Liability (the present value of earned benefits): $120.11 million
- Annual Required Contribution (amount needed to “fully fund” retiree health benefits): $6.58 million
- The above ARC reflects $71.34 million plan assets

Comparison to prior valuations

Valuation Date	Actuarial Accrued Liability (AAL)	Annual Required Contribution (ARC)
3/1/12	$120,114,689	$6,583,670
5/1/11	$114,656,841	$5,905,111
5/1/09	$87,651,507	$4,558,826

Looking Forward to 3/1/14

	3/1/12	Projected 3/1/14
Actuarial Accrued Liability (AAL)	$120,114,689	$129,389,125
Annual Required Contribution (ARC)	$6,583,670	$6,777,296

- As long as Mt SAC has an ongoing retiree health benefit program, expect AAL and NC to increase
- Increases will be uneven due to actuarial gains and losses– extent depends on plan design
- There are special situations that can cause large changes
- 3/1/14 ARC will be higher than expected to the extent plan not fully funded

Looking Forward

- **Unless limited by plan design or agreement, actual premium increases can be much different from assumed**
- **CalPERS and CalSTRS periodically update their demographic tables – can cause increase or decrease**

Looking Forward – New GASB Standards

- Likely to take effect in 2016-17
- Will require immediate recognition of entire liability
- Will affect interest assumption for "unfunded" portion of liability – thereby increasing liability for plans that are not "fully funded"

Looking Forward – New ASOP

- Valuations are done in accordance with Actuarial Standards of Practice (ASOP) promulgated by the Actuarial Standards Board (ASB)
- Current ASOP allows use of retiree premiums
- Proposed ASOP would require adding "implicit rate subsidy"
- Adding "implicit rate subsidy" could increase liability by as much as 10%

Looking Forward: Accreditation

- Accreditation reviews now include making sure there is an "Institutional plan for funding the liability."

THANK YOU

Mount San Antonio Community College District

Actuarial Study of Retiree Health Liabilities As of March 1, 2012

Prepared by:
Total Compensation Systems, Inc.

Date: June 27, 2013

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Mount San Antonio Community College District

Actuarial Study of Retiree Health Liabilities

PART I: EXECUTIVE SUMMARY

A. Introduction

Mount San Antonio Community College District engaged Total Compensation Systems, Inc. (TCS) to analyze liabilities associated with its current retiree health program as of March 1, 2012 (the valuation date). The numbers in this report are based on the assumption that they will first be used to determine accounting entries for the fiscal year ending June 30, 2013. If the report will first be used for a different fiscal year, the numbers will need to be adjusted accordingly.

This report does not reflect any cash benefits paid unless the retiree is required to provide proof that the cash benefits are used to reimburse the retiree's cost of health benefits. Costs and liabilities attributable to cash benefits paid to retirees are reportable under Governmental Accounting Standards Board (GASB) Standards 25/27.

This actuarial study is intended to serve the following purposes:

- To provide information to enable Mount San Antonio CCD to manage the costs and liabilities associated with its retiree health benefits.
- To provide information to enable Mount San Antonio CCD to communicate the financial implications of retiree health benefits to internal financial staff, the Board, employee groups and other affected parties.
- To provide information needed to comply with Governmental Accounting Standards Board Accounting Standards 43 and 45 related to "other postemployment benefits" (OPEB's).

Because this report was prepared in compliance with GASB 43 and 45, as appropriate, Mount San Antonio CCD should not use this report for any other purpose without discussion with TCS. This means that any discussions with employee groups, governing Boards, etc. should be restricted to the implications of GASB 43 and 45 compliance.

This actuarial report includes several estimates for Mount San Antonio CCD's retiree health program. In addition to the tables included in this report, we also performed cash flow adequacy tests as required under Actuarial Standard of Practice 6 (ASOP 6). Our cash flow adequacy testing covers a twenty-year period. We would be happy to make this cash flow adequacy test available to Mount San Antonio CCD in spreadsheet format upon request.

We calculated the following estimates separately for active employees and retirees. As requested, we also separated results by the following employee classifications: Certificated, Classified and Management. We estimated the following:

- the total liability created. (The actuarial present value of total projected benefits or APVTPB)
- the ten year "pay-as-you-go" cost to provide these benefits.
- the "actuarial accrued liability (AAL)." (The AAL is the portion of the APVTPB attributable to employees' service prior to the valuation date.)

- the amount necessary to amortize the UAAL over a period of 30 years.
- the annual contribution required to fund retiree benefits over the working lifetime of eligible employees (the "normal cost").
- The Annual Required Contribution (ARC) which is the basis of calculating the annual OPEB cost and net OPEB obligation under GASB 43 and 45.

We summarized the data used to perform this study in Appendix A. No effort was made to verify this information beyond brief tests for reasonableness and consistency.

All cost and liability figures contained in this study are estimates of future results. Future results can vary dramatically and the accuracy of estimates contained in this report depends on the actuarial assumptions used. Normal costs and liabilities could easily vary by 10 - 20% or more from estimates contained in this report.

B. General Findings

We estimate the "pay-as-you-go" cost of providing retiree health benefits in the year beginning March 1, 2012 to be $4,626,040 (see Section IV.A.). The "pay-as-you-go" cost is the cost of benefits for current retirees.

For current employees, the value of benefits "accrued" in the year beginning March 1, 2012 (the normal cost) is $3,179,413. This normal cost would increase each year based on covered payroll. Had Mount San Antonio CCD begun accruing retiree health benefits when each current employee and retiree was hired, a substantial liability would have accumulated. We estimate the amount that would have accumulated to be $120,114,689. This amount is called the "actuarial accrued liability" (AAL). The remaining unamortized balance of the initial unfunded AAL (UAAL) is $39,253,299. This leaves a "residual" AAL of $80,861,390.

June 30, 2013 has established a GASB 43 trust for future OPEB benefits. The actuarial value of plan assets at February 29, 2012 was $71,343,707. This leaves a residual unfunded actuarial accrued liability (UAAL) of $9,517,683. We calculated the annual cost to amortize the residual unfunded actuarial accrued liability using a 5% discount rate. We used an open 30 year amortization period. The current year cost to amortize the residual unfunded actuarial accrued liability is $619,139.

Combining the normal cost with both the initial and residual UAAL amortization costs produces an annual required contribution (ARC) of $6,583,670. The ARC is used as the basis for determining expenses and liabilities under GASB 43/45. The ARC is used in lieu of (rather than in addition to) the "pay-as-you-go" cost.

We based all of the above estimates on employees as of February, 2012. Over time, liabilities and cash flow will vary based on the number and demographic characteristics of employees and retirees.

C. Description of Retiree Benefits

Following is a description of the current retiree benefit plan:

	Faculty	Classified	Management
Benefit types provided	Medical only	Medical only	Medical only
Duration of Benefits	Lifetime	Lifetime	Lifetime
Required Service	10 years	10 years	10 years
Minimum Age	55	50	Depends on retirement system
Dependent Coverage	Yes*	Yes*	Yes*
College Contribution %	100%	100%	100%
College Cap	None	None	None

*Spouse coverage only for those hired prior to January 1, 1996

D. Recommendations

It is outside the scope of this report to make specific recommendations of actions Mount San Antonio CCD should take to manage the substantial liability created by the current retiree health program. Total Compensation Systems, Inc. can assist in identifying and evaluating options once this report has been studied. The following recommendations are intended only to allow the District to get more information from this and future studies. Because we have not conducted a comprehensive administrative audit of Mount San Antonio CCD's practices, it is possible that Mount San Antonio CCD is already complying with some or all of our recommendations.

- We recommend that Mount San Antonio CCD inventory all benefits and services provided to retirees – whether contractually or not and whether retiree-paid or not. For each, Mount San Antonio CCD should determine whether the benefit is material and subject to GASB 43 and/or 45.

- We recommend that Mount San Antonio CCD conduct a study whenever events or contemplated actions significantly affect present or future liabilities, but no less frequently than every two years, as required under GASB 43/45.

- We recommend that the District communicate the magnitude of these costs to employees and include employees in discussions of options to control the costs.

- Under GASB 45, it is important to isolate the cost of retiree health benefits. Mount San Antonio CCD should have all premiums, claims and expenses for retirees separated from active employee premiums, claims, expenses, etc. To the extent any retiree benefits are made available to retirees over the age of 65 – ***even on a retiree-pay-all basis*** – all premiums, claims and expenses for post-65 retiree coverage should be segregated from those for pre-65 coverage. Furthermore, Mount San Antonio CCD should arrange for the rates or prices of all retiree benefits to be set on what is expected to be a self-sustaining basis.

- Mount San Antonio CCD should establish a way of designating employees as eligible or ineligible for future OPEB benefits. Ineligible employees can include those in ineligible job classes; those hired after a designated date restricting eligibility; those who, due to their age at hire cannot qualify for District-paid OPEB benefits; employees who exceed the termination age for OPEB benefits, etc.

- Several assumptions were made in estimating costs and liabilities under Mount San

Antonio CCD's retiree health program. Further studies may be desired to validate any assumptions where there is any doubt that the assumption is appropriate. (See Appendices B and C for a list of assumptions and concerns.) For example, Mount San Antonio CCD should maintain a retiree database that includes – in addition to date of birth, gender and employee classification – retirement date and (if applicable) dependent date of birth, relationship and gender. It will also be helpful for Mount San Antonio CCD to maintain employment termination information – namely, the number of OPEB-eligible employees in each employee class that terminate employment each year for reasons other than death, disability or retirement.

Respectfully submitted,

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PART II: BACKGROUND

A. Summary

Accounting principles provide that the cost of retiree benefits should be "accrued" over employees' working lifetime. For this reason, the Governmental Accounting Standards Board (GASB) issued in 2004 Accounting Standards 43 and 45 for retiree health benefits. These standards apply to all public employers that pay any part of the cost of retiree health benefits for current or future retirees (including early retirees).

B. Actuarial Accrual

To actuarially accrue retiree health benefits requires determining the amount to expense each year so that the liability accumulated at retirement is, on average, sufficient (with interest) to cover all retiree health expenditures without the need for additional expenses. There are many different ways to determine the annual accrual amount. The calculation method used is called an "actuarial cost method."

Under most actuarial cost methods, there are two components of actuarial cost - a "normal cost" and amortization of something called the "unfunded actuarial accrued liability." Both accounting standards and actuarial standards usually address these two components separately (though alternative terminology is sometimes used).

The normal cost can be thought of as the value of the benefit earned each year if benefits are accrued during the working lifetime of employees. This report will not discuss differences between actuarial cost methods or their application. Instead, following is a description of a commonly used, generally accepted actuarial cost method that will be permitted under GASB 43 and 45. This actuarial cost method is called the "entry age normal" method.

Under the entry age normal cost method, the actuary determines the annual amount needing to be expensed from hire until retirement to fully accrue the cost of retiree health benefits. This amount is the normal cost. Under GASB 43 and 45, normal cost can be expressed either as a level dollar amount or a level percentage of payroll.

The normal cost is determined using several key assumptions:

- The current ***cost of retiree health benefits*** (often varying by age, Medicare status and/or dependent coverage). The higher the current cost of retiree benefits, the higher the normal cost.
- The ***"trend" rate*** at which retiree health benefits are expected to increase over time. A higher trend rate increases the normal cost. A "cap" on District contributions can reduce trend to zero once the cap is reached thereby dramatically reducing normal costs.
- ***Mortality rates*** varying by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce normal costs, the mortality assumption is not likely to vary from employer to employer.
- ***Employment termination rates*** have the same effect as mortality inasmuch as higher termination rates reduce normal costs. Employment termination can vary considerably between public agencies.
- The ***service requirement*** reflects years of service required to earn full or partial retiree benefits.

While a longer service requirement reduces costs, cost reductions are not usually substantial unless the service period exceeds 20 years of service.

- ***Retirement rates*** determine what proportion of employees retire at each age (assuming employees reach the requisite length of service). Retirement rates often vary by employee classification and implicitly reflect the minimum retirement age required for eligibility. Retirement rates also depend on the amount of pension benefits available. Higher retirement rates increase normal costs but, except for differences in minimum retirement age, retirement rates tend to be consistent between public agencies for each employee type.

- ***Participation rates*** indicate what proportion of retirees are expected to elect retiree health benefits if a significant retiree contribution is required. Higher participation rates increase costs.

- The ***discount rate*** estimates investment earnings for assets earmarked to cover retiree health benefit liabilities. The discount rate depends on the nature of underlying assets. For example, employer funds earning money market rates in the county treasury are likely to earn far less than an irrevocable trust containing a diversified asset portfolio including stocks, bonds, etc. A higher discount rate can dramatically lower normal costs. GASB 43 and 45 require the interest assumption to reflect likely *long term* investment return.

The assumptions listed above are not exhaustive, but are the most common assumptions used in actuarial cost calculations. The actuary selects the assumptions which - taken together - will yield reasonable results. It's not necessary (or even possible) to predict individual assumptions with complete accuracy.

If all actuarial assumptions are exactly met and an employer expensed the normal cost every year for all past and current employees and retirees, a sizeable liability would have accumulated (after adding interest and subtracting retiree benefit costs). The liability that would have accumulated is called the actuarial accrued liability or AAL. The excess of AAL over the ***actuarial value of plan assets*** is called the *unfunded* actuarial accrued liability (or UAAL). Under GASB 43 and 45, in order for assets to count toward offsetting the AAL, the assets have to be held in an irrevocable trust that is safe from creditors and can only be used to provide OPEB benefits to eligible participants.

The actuarial accrued liability (AAL) can arise in several ways. At inception of GASB 43 and 45, there is usually a substantial UAAL. Some portion of this amount can be established as the "transition obligation" subject to certain constraints. UAAL can also increase as the result of operation of a retiree health plan - e.g., as a result of plan changes or changes in actuarial assumptions. Finally, AAL can arise from actuarial gains and losses. Actuarial gains and losses result from differences between actuarial assumptions and actual plan experience.

Under GASB 43 and 45, employers have several options on how the UAAL can be amortized as follows:

- The employer can select an amortization period of 1 to 30 years. (For certain situations that result in a reduction of the AAL, the amortization period must be at least 10 years.)

- The employer may apply the same amortization period to the total combined UAAL or can apply different periods to different components of the UAAL.

- The employer may elect a "closed" or "open" amortization period.

- The employer may choose to amortize on a level dollar or level percentage of payroll method.

PART III: LIABILITIES AND COSTS FOR RETIREE BENEFITS

A. Introduction.

We calculated the actuarial present value of projected benefits (APVPB) separately for each employee. We determined eligibility for retiree benefits based on information supplied by Mount San Antonio CCD. We then selected assumptions for the factors discussed in the above Section that, based on plan experience and our training and experience, represent our best prediction of future plan experience. For each employee, we applied the appropriate factors based on the employee's age, sex and length of service.

We summarized actuarial assumptions used for this study in Appendix C.

B. Medicare

The extent of Medicare coverage can affect projections of retiree health costs. The method of coordinating Medicare benefits with the retiree health plan's benefits can have a substantial impact on retiree health costs. We will be happy to provide more information about Medicare integration methods if requested.

C. Liability for Retiree Benefits.

For each employee, we projected future premium costs using an assumed trend rate (see Appendix C). To the extent Mount San Antonio CCD uses contribution caps, the influence of the trend factor is further reduced.

We multiplied each year's projected cost by the probability that premium will be paid; i.e. based on the probability that the employee is living, has not terminated employment and has retired. The probability that premium will be paid is zero if the employee is not eligible. The employee is not eligible if s/he has not met minimum service, minimum age or, if applicable, maximum age requirements.

The product of each year's premium cost and the probability that premium will be paid equals the expected cost for that year. We discounted the expected cost for each year to the valuation date March 1, 2012 at 5% interest.

Finally, we multiplied the above discounted expected cost figures by the probability that the retiree would elect coverage. A retiree may not elect to be covered if retiree health coverage is available less expensively from another source (e.g. Medicare risk contract) or the retiree is covered under a spouse's plan.

For any current retirees, the approach used was similar. The major difference is that the probability of payment for current retirees depends only on mortality and age restrictions (i.e. for retired employees the probability of being retired and of not being terminated are always both 1.0000).

We added the APVPB for all employees to get the actuarial present value of total projected benefits (APVTPB). The APVTPB is the estimated present value of all future retiree health benefits for all **current** employees and retirees. The APVTPB is the amount on March 1, 2012 that, if all actuarial assumptions are exactly right, would be sufficient to expense all promised benefits until the last current employee or retiree dies or reaches the maximum eligibility age.

Actuarial Present Value of Total Projected Benefits at March 1, 2012

	Total	*Certificated*	*Classified*	*Management*
Active: Pre-65	$22,940,661	$10,782,549	$9,940,197	$2,217,915
Post-65	$66,620,358	$34,720,666	$24,882,825	$7,016,867
Subtotal	$89,561,019	$45,503,215	$34,823,022	$9,234,782
Retiree: Pre-65	$5,077,176	$971,735	$3,882,700	$222,741
Post-65	$52,984,866	$26,425,686	$22,332,457	$4,226,723
Subtotal	$58,062,042	$27,397,421	$26,215,157	$4,449,464
Grand Total	$147,623,061	$72,900,636	$61,038,179	$13,684,246
Subtotal Pre-65	$28,017,837	$11,754,284	$13,822,897	$2,440,656
Subtotal Post-65	$119,605,224	$61,146,352	$47,215,282	$11,243,590

The APVTPB should be accrued over the working lifetime of employees. At any time much of it has not been "earned" by employees. The APVTPB is used to develop expense and liability figures. To do so, the APVTFB is divided into two parts: the portions attributable to service rendered prior to the valuation date (the past service liability or actuarial accrued liability under GASB 43 and 45) and to service after the valuation date but prior to retirement (the future service liability).

The past service and future service liabilities are each funded in a different way. We will start with the future service liability which is funded by the normal cost.

D. Cost to Prefund Retiree Benefits

1. Normal Cost

The average hire age for eligible employees is 35. To accrue the liability by retirement, the District would accrue the retiree liability over a period of about 25 years (assuming an average retirement age of 60). We applied an "entry age normal" actuarial cost method to determine funding rates for active employees. The table below summarizes the calculated normal cost.

Normal Cost Year Beginning March 1, 2012

	Total	*Certificated*	*Classified*	*Management*
# of Employees	913	390	428	95
Per Capita Normal Cost				
Pre-65 Benefit	N/A	$1,179	$976	$1,165
Post-65 Benefit	N/A	$2,843	$1,900	$2,834
First Year Normal Cost				
Pre-65 Benefit	$988,213	$459,810	$417,728	$110,675
Post-65 Benefit	$2,191,200	$1,108,770	$813,200	$269,230
Total	$3,179,413	$1,568,580	$1,230,928	$379,905

Accruing retiree health benefit costs using normal costs levels out the cost of retiree health benefits over time and more fairly reflects the value of benefits "earned" each year by employees. This normal cost would increase each year based on covered payroll.

2. Amortization of Unfunded Actuarial Accrued Liability (UAAL)

If actuarial assumptions are borne out by experience, the District will fully accrue retiree benefits by expensing an amount each year that equals the normal cost. If no accruals had taken place in the past, there would be a shortfall of many years' accruals, accumulated interest and forfeitures for terminated or deceased employees. This shortfall is called the actuarial accrued liability (AAL). We calculated the AAL as the APVTPB minus the present value of future normal costs.

The initial UAAL was amortized using a closed amortization period of 30 years. The District can amortize the remaining or residual UAAL over many years. The table below shows the annual amount necessary to amortize the UAAL over a period of 30 years at 5% interest. (Thirty years is the longest amortization period allowable under GASB 43 and 45.) GASB 43 and 45 will allow amortizing the UAAL using either payments that stay the same as a dollar amount, or payments that are a flat percentage of covered payroll over time. The figures below reflect the level percentage of payroll method.

Actuarial Accrued Liability as of March 1, 2012

	Total	*Certificated*	*Classified*	*Management*
Active: Pre-65	$14,383,139	$6,717,071	$6,277,006	$1,389,062
Post-65	$47,669,508	$24,917,311	$17,751,612	$5,000,585
Subtotal	$62,052,647	$31,634,382	$24,028,618	$6,389,647
Retiree: Pre-65	$5,077,176	$971,735	$3,882,700	$222,741
Post-65	$52,984,866	$26,425,686	$22,332,457	$4,226,723
Subtotal	$58,062,042	$27,397,421	$26,215,157	$4,449,464
Subtot Pre-65	$19,460,315	$7,688,806	$10,159,706	$1,611,803
Subtot Post-65	$100,654,374	$51,342,997	$40,084,069	$9,227,308
Grand Total	$120,114,689	$59,031,803	$50,243,775	$10,839,111
Unamortized Initial UAAL	$39,253,299			
Plan assets at 2/29/12	$71,343,707			
Residual UAAL	$9,517,683			
Residual UAAL Amortization at 5% over 30 Years	$619,139			

3. Annual Required Contributions (ARC)

If the District determines retiree health plan expenses in accordance with GASB 43 and 45, costs will include both normal cost and one or more components of UAAL amortization costs. The sum of normal cost and UAAL amortization costs is called the Annual Required Contribution (ARC) and is shown below.

Annual Required Contribution (ARC) Year Beginning March 1, 2012

	Total
Normal Cost	$3,179,413
Initial UAAL Amortization	$2,785,118
Residual UAAL Amortization	$619,139
ARC	$6,583,670

The normal cost remains as long as there are active employees who may some day qualify for District-paid retiree health benefits. This normal cost would increase each year based on covered payroll.

4. Other Components of Annual OPEB Cost (AOC)

Expense and liability amounts may include more components of cost than the normal cost plus amortization of the UAAL. This will apply to employers that don't fully fund the Annual Required Cost (ARC) through an irrevocable trust.

- The annual OPEB cost (AOC) will include assumed interest on the net OPEB obligation (NOO). The annual OPEB cost will also include an amortization adjustment for the net OPEB obligation. (It should be noted that there is no NOO if the ARC is fully funded through a qualifying "plan".)
- The net OPEB obligation will equal the accumulated differences between the (AOC) and qualifying "plan" contributions.

PART IV: "PAY AS YOU GO" FUNDING OF RETIREE BENEFITS

We used the actuarial assumptions shown in Appendix C to project ten year cash flow under the retiree health program. Because these cash flow estimates reflect average assumptions applied to a relatively small number of employees, estimates for individual years are **certain** to be ***in***accurate. However, these estimates show the size of cash outflow.

The following table shows a projection of annual amounts needed to pay the District share of retiree health premiums.

Year Beginning March 1	*Total*	*Certificated*	*Classified*	*Management*
2012	$4,626,040	$2,197,402	$1,960,600	$468,038
2013	$4,793,156	$2,310,431	$2,016,764	$465,961
2014	$5,131,228	$2,497,332	$2,130,587	$503,309
2015	$5,415,385	$2,633,419	$2,250,267	$531,699
2016	$5,707,206	$2,793,043	$2,352,233	$561,930
2017	$6,011,020	$2,938,551	$2,492,017	$580,452
2018	$6,293,898	$3,092,686	$2,616,441	$584,771
2019	$6,597,311	$3,232,839	$2,740,528	$623,944
2020	$6,891,927	$3,386,573	$2,862,170	$643,184
2021	$7,179,374	$3,515,481	$2,988,181	$675,712

PART V: RECOMMENDATIONS FOR FUTURE VALUATIONS

To effectively manage benefit costs, an employer must periodically examine the existing liability for retiree benefits as well as future annual expected premium costs. GASB 43/45 require biennial valuations. In addition, a valuation should be conducted whenever plan changes, changes in actuarial assumptions or other employer actions are likely to cause a material change in accrual costs and/or liabilities.

Following are examples of actions that could trigger a new valuation.

- An employer should perform a valuation whenever the employer considers or puts in place an early retirement incentive program.
- An employer should perform a valuation whenever the employer adopts a retiree benefit plan for some or all employees.
- An employer should perform a valuation whenever the employer considers or implements changes to retiree benefit provisions or eligibility requirements.
- An employer should perform a valuation whenever the employer introduces or changes retiree contributions.

We recommend Mount San Antonio CCD take the following actions to ease future valuations.

- We have used our training, experience and information available to us to establish the actuarial assumptions used in this valuation. We have no information to indicate that any of the assumptions do not reasonably reflect future plan experience. However, the District should review the actuarial assumptions in Appendix C carefully. If the District has any reason to believe that any of these assumptions do not reasonably represent the expected future experience of the retiree health plan, the District should engage in discussions or perform analyses to determine the best estimate of the assumption in question.

PART VI: APPENDICES

APPENDIX A: MATERIALS USED FOR THIS STUDY

We relied on the following materials to complete this study.

- We used paper reports and digital files containing employee demographic data from the District personnel records.
- We used relevant sections of collective bargaining agreements provided by the District.

APPENDIX B: EFFECT OF ASSUMPTIONS USED IN CALCULATIONS

While we believe the estimates in this study are reasonable overall, it was necessary for us to use assumptions which inevitably introduce errors. We believe that the errors caused by our assumptions will not materially affect study results. If the District wants more refined estimates for decision-making, we recommend additional investigation. Following is a brief summary of the impact of some of the more critical assumptions.

1. Where actuarial assumptions differ from expected experience, our estimates could be overstated or understated. One of the most critical assumptions is the medical trend rate. The District may want to commission further study to assess the sensitivity of liability estimates to our medical trend assumptions. For example, it may be helpful to know how liabilities would be affected by using a trend factor 1% higher than what was used in this study. There is an additional fee required to calculate the impact of alternative trend assumptions.

2. We used an "entry age normal" actuarial cost method to estimate the actuarial accrued liability and normal cost. GASB allows this as one of several permissible methods under GASB45. Using a different cost method could result in a somewhat different recognition pattern of costs and liabilities.

APPENDIX C: ACTUARIAL ASSUMPTIONS AND METHODS

Following is a summary of actuarial assumptions and methods used in this study. The District should carefully review these assumptions and methods to make sure they reflect the District's assessment of its underlying experience. It is important for Mount San Antonio CCD to understand that the appropriateness of all selected actuarial assumptions and methods are Mount San Antonio CCD's responsibility. Unless otherwise disclosed in this report, TCS believes that all methods and assumptions are within a reasonable range based on the provisions of GASB 43 and 45, applicable actuarial standards of practice, Mount San Antonio CCD's actual historical experience, and TCS's judgment based on experience and training.

ACTUARIAL METHODS AND ASSUMPTIONS:

ACTUARIAL COST METHOD: Entry age normal. The allocation of OPEB cost is based on years of service. We used the level percentage of payroll method to allocate OPEB cost over years of service.

Entry age is based on the age at hire for eligible employees. The attribution period is determined as the difference between the expected retirement age and the age at hire. The present value of future benefits and present value of future normal costs are determined on an employee by employee basis and then aggregated.

To the extent that different benefit formulas apply to different employees of the same class, the normal cost is based on the benefit plan applicable to the most recently hired employees (including future hires if a new benefit formula has been agreed to and communicated to employees).

AMORTIZATION METHODS: We used a level dollar, closed 30 year amortization period for the initial UAAL. We used a level dollar, open 30 year amortization period for any residual UAAL.

SUBSTANTIVE PLAN: As required under GASB 43 and 45, we based the valuation on the substantive plan. The formulation of the substantive plan was based on a review of written plan documents as well as historical information provided by Mount San Antonio CCD regarding practices with respect to employer and employee contributions and other relevant factors.

ECONOMIC ASSUMPTIONS:

Economic assumptions are set under the guidance of Actuarial Standard of Practice 27 (ASOP 27). Among other things, ASOP 27 provides that economic assumptions should reflect a consistent underlying rate of general inflation. For that reason, we show our assumed long-term inflation rate below.

INFLATION: We assumed 3% per year.

INVESTMENT RETURN / DISCOUNT RATE: We assumed 5% per year. This is based on assumed long-term return on employer assets and plan assets assuming 50% funding through Custom. We used the "Building Block Method" as described in ASOP 27 Paragraph 3.6.2. Our assessment of long-term returns for employer assets is based on long-term historical returns for surplus funds invested pursuant to California Government Code Sections 53601 et seq.

TREND: We assumed 4% per year. Our long-term trend assumption is based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. Trend increases in excess of general inflation result in dramatic increases in unemployment, the number of uninsured and the number of underinsured. These effects are nearing a tipping point which will inevitably result in fundamental changes in health care finance and/or delivery which will bring increases in health care costs more closely in line with general inflation. We do not believe it is reasonable to project historical trend vs. inflation differences several decades into the future.

PAYROLL INCREASE: We assumed 3% per year. This assumption applies only to the extent that either or both of the normal cost and/or UAAL amortization use the level percentage of payroll method. For purposes of applying the level percentage of payroll method, payroll increase must not assume any increases in staff or merit increases.

ACTUARIAL VALUE OF PLAN ASSETS (AVA): Because plan assets are primarily short term, we did not use a smoothing formula.