BUDGET COMMITTEE

MEETING AGENDA

November 16, 2016

3:00 p.m.

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

Committee Members:

Mike Gregoryk, Chair	Rosa Royce	Brian Moon (Student)	Bill Scroggins (Guest)
Martin Ramey, Co-Chair	Ruben Flores	Johnny Montiel (Student)	
Irene Malmgren or Joumana McGowen (substitute)	Michael Sanetrick		
	Lance Heard		
Audrey Yamagata-Noji	Gary Nellesen		Kerry Martinez (Notes)
Mark Fernandez	Lisa Romo		Brigitte Hebert (Notes)

AGENDA ITEMS:

1. **Agenda Check**

2. **Review the Budget Committee Meeting Summary of October 5, 2016, and the Budget and Institutional Effectiveness Joint Committees Meeting of October 26, 2016**

3. **Review Document Titled Mt. San Antonio CCD OPEB GASB 45 Disclosure – History**

4. **Review Mt. San Antonio Community College District Actuarial Study of Retiree Health Liabilities as of March 1, 2016**

5. **Review 2017-18 Budget Development Calendar**

Mt. San Antonio College
Budget Committee Summary of
November 16, 2016

Committee Members:

☐ Mike Gregoryk, Chair	☒ Michael Sanetrick	☐ Brian Moon (Student)	☒ Grace Hanson
☒ Martin Ramey, Co-Chair	☒ Mark Fernandez	☐ Ty Wright (Student)	☒ Matt Judd
☒ Irene Malmgren Substitute (Matt Judd)	☒ Rosa Royce	☒ Ruben Flores	☒ Brigitte Hebert (Notes)
☒ Audrey Yamagata-Noji Substitute (Grace Hanson)	☐ Lance Heard	☐ Gary Nellesen	☒ Kerry Martinez (Notes)
	☐ Lisa Romo	☐ Mauricio Goncalves	☒ Steven Garcia (Guest)

ITEM	DISCUSSION/COMMENTS	ACTION/OUTCOME
1. Agenda Check	Johnny Montiel (Student) is to be updated to Ty Wright (Student)	Approved once correction is made.
2. Review the Budget Committee Meeting Summary of October 5, 2016	The Budget Committee Meeting Summary of October 5, 2016 was reviewed.	Approved, as presented.
3. Review the Joint Budget Committee and Institutional Effectiveness Meeting Summary of October 26, 2016	It was noted to correct Martin's name under Item #2	Approved once correction is made.
4. Review Document Title Mt. San Antonio CCD OPEB GASB 45	Rosa Royce mentioned her discussion would be combining Agenda Items 4 and 5. Rosa referenced Page 9 and 11 of the Actuarial Study prepared by our consultants, Total Compensation Systems, Inc.	Rosa will contact TCS, Inc. to find out dates for completion of the valuation report

Disclosure – History / **5. Review Mt. San Antonio Community College District Actuarial Study of Retiree Health Liabilities as of March 1, 2016**	**As of February 29, 2016, Mt. SAC had funded approximately $64.9 million in the OPEB Trust of its $105.4 million unfunded liability leaving about $40.5 million to be amortized.** **The Annual Required Contribution (ARC) calculated as of March 1, 2016, is $6.5 million. This amount includes $3.2 million that is needed to amortize the remaining $40.5 million funded liability. Where is the $3.2 million and how much do we need to amortize this liability?** **The Initial UAAL Amortization of $2.7 million, plus the Residual UAAL Amortization of $371,709 totaling approximately $3.2 million is what we need each year to amortize our unfunded liability, which has 21 years remaining based on 30 years.** **In addition, Mt. SAC's current employees will accrue $3.4 million of liability for benefits earned during 2016-17. Also, retirees are expected to use up to $4.1 million of the liability for the payment of the retiree's medical premiums.** **Adding the $3.2 million in initial amortization, plus $3.4 million in benefit accruals, minus $4.1 million in liability reduction leads to an increase of $2.5 million in liability. This $2.5 million is included in our Adopted Budget as an ongoing expenditure.** **To keep up this funding level, Mt. SAC should contribute at least $2.5 million to the OPEB Trust in 2016-17.** **A spreadsheet titled "Mt. SAC CCD OPEB GASB 45 Disclosure History" was then referenced by Rosa, which is prepared each year for the audit report. The information is taken from the Actuarial Report. This report is used for the GASB 45 Disclosure as part of the annual financial audit. Since we are only contributing $2.5 million, instead of $6.5 million our liability has increased to $21.4 million in the audited financial**	**under the new GASB.** **This topic will be moved to the BC March agenda. It was decided to wait until after Accreditation.**

	statements. Per GASB 45, the College is only obligated to recognize the accrual in the financial statements, but it is not obligated to make the cash payment. **Our funding ratio, based on our last actuarial report, is 61.6%. This is very good when compared to other college's pension obligations.** **Mt. SAC is using the interest in the OPEB Trust to pay the health benefits for the retirees and funding the bare minimum to keep the principal constant in the OPEB Trust. Therefore, the funding ratio is not increasing. If we were to pay for these health benefits from the General Fund, the funding ratio would increase.** **It is important to mention that this is the last year GASB 45 is used. A new GASB pronouncement will apply, effective with fiscal year 2016-17. Liabilities may show in the $100 million's since the requirement is to record the present value of the total pension obligation. All the colleges will be affected by this. Investors will have to analyze our financial statements since our pension liability will grow much larger.** **This may not affect our Bond ratings, since investors also require the submission of the CCSF-311 Report, which is prepared in a modified accrual basis and the pension obligation is not included. The pension obligation is only reported on our audit report.** **Is there a need to revisit our 2014 recommendation to the Board to contribute a higher amount to the OPEB Trust? GASB is changing and the recommendations will come out after the actuarial valuation report is performed next year. At that time, we can decide how to approach this. Many colleges are also facing this issue.** **This change is on how we report the pension obligations, not on how we handle the OPEB Trust.**	

	Board policy indicates the payment of at least $2.5 million must continue. Should there be a formal revisit to see if there should be additional funding to the OPEB Trust regardless of what the recommendation is? **There is a concern from our constituencies that the unfunded portion has grown to a high number and the College may not meet their obligations.** **Rosa also mentioned that for accreditation purposes, we need to show we are funding our pension obligation.** **The new actuarial report needs to be brought back to the group for discussion before any revised recommendation can be considered for the 2017-18 fiscal year budget.** **It is suggested that the funding ratio won't be affected, but will show how it is reported on the books.** **Mark Fernandez suggested instead of a fixed amount for our contribution, we have a percentage contribution based on the increasing projected contribution of total funding for retiree benefits. This can keep us on tract so the funding ratio does not drop.** **Rosa reiterated that the pension obligation is based on projections and calculations. We are maintaining the principal of the OPEB Trust. We have changed the source of where the money is coming from when it comes to pay for the retirees' health premiums (i.e. interest from the OPEB Trust rather than the General Fund).** **Mark mentioned that if we were to increase the funding of the OPEB Trust, we would earn more interest, therefore be able to pay more. There is a concern that health care will keep increasing faster than interest earnings in the OPEB Trust. The question is if when we retire, will there**	

	be funds available? It is recommended to revisit the $2.5 million contribution to the OPEB Trust. **It is recommended that the Committee revisit the $2.5 million OPEB Trust contribution after the actuarial report is received in the spring of 2017.**	
6. Review 2017-18 Budget Development Calendar	**The calendar was reviewed with errors noted.**	**6/10/17 will be changed to 6/9/17 and 7/1/17 changed to 7/3/17** **Timeframes will be noted accordingly.** **Dates will be put in chronological order.** **Kerry will send out revised calendar to Budget Committee.**

FUTURE AGENDA ITEMS

- **March Agenda – Revisit OPEB contribution recommendation.**

FUTURE MEETING DATES

- **November 16, 2016**
- **December 7, 2016**
- **No meeting January – February 2017 unless critical issues arise**
- **March 8, 2017**

Mt. San Antonio CCD
OPEB GASB 45 Disclosure - History

Actuarial Reports as of:	**April 1, 2007**	**April 1, 2007**	**May 1, 2009**	**May 1, 2009**	**May 1, 2011**	**March 1, 2012**	**March 1, 2014**	**March 1, 2014**	**March 1, 2016**
Audit Report as of	**6/30/2008**	**6/30/2009**	**6/30/2010**	**6/30/2011**	**6/30/2012**	**6/30/2013**	**6/30/14**	**6/30/2015**	**6/30/2016**
	Actual	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Actuals**	**Actuals**
Normal Cost	2,534,224	2,610,251	2,343,669	2,413,979	2,587,394	3,179,413	4,156,438	4,270,740	3,384,286
Initial Unfunded Actuarial Accrued Liability UAAL (Amortization 21 years left)	2,785,118	2,785,118	2,785,118	2,785,118	2,785,118	2,785,118	2,785,118	2,785,118	2,785,118
Residual UAAL Amortization	-	-	(569,961)	(587,060)	532,599	619,139	(148,651)	(152,739)	371,709
Annual Required Contribution	$ 5,319,342	$ 5,395,369	$ 4,558,826	$ 4,612,037	$ 5,905,111	$ 6,583,670	$ 6,792,905	$ 6,903,119	$ 6,541,113
Interest on net OPEB obligation	-	(61,343)	20,419	(4,739)	(69,488)	(6,222)	323,055	657,838	-
Adjustment to annual required contribution	-	76,761	(17,566)	4,077	59,774	8,095	(420,305)	(855,868)	-
Annual OPEB cost (expense)	**5,319,342**	**5,410,787**	**4,561,679**	**4,611,375**	**5,895,397**	**6,585,543**	**6,695,655**	**6,705,089**	**6,541,113**
Contributions made:									
Retirees Health Premiums paid by the District	(3,696,980)	(3,251,370)	(3,230,930)	(3,940,456)	(4,358,719)	(4,431,678)	(3,999,809)	(3,790,007)	3,931,388
Retirees Health Premiums reimbursed by OPEB Trust	-	-	-	-	-	4,431,678	3,999,809	3,790,007	(3,931,388)
Subtotal Retirees Health Premiums Paid by the District	(3,696,980)	(3,251,370)	(3,230,930)	(3,940,456)	(4,358,719)	-	-	-	-
District Contribution from Unrestricted General Fund	(2,737,698)	(672,833)	(1,788,169)	(1,848,157)	(184,163)	-	-	(2,500,000)	(2,500,000)
District Contributions from the JPA May 22, 2012	-	-	-	-	(213,549)	-	-	-	-
Total Contributions	**(6,434,678)**	**(3,924,203)**	**(5,019,099)**	**(5,788,613)**	**(4,756,431)**	**-**	**-**	**(2,500,000)**	**(2,500,000)**
Contributions (Over/Assets) or Under/Liabilities	**(1,115,336)**	**1,486,584**	**(457,420)**	**(1,177,238)**	**1,138,966**	**6,585,543**	**6,695,655**	**4,205,089**	**4,041,113**
From previous year	**-**	**(1,115,336)**	**371,248**	**(86,172)**	**(1,263,410)**	**(124,444)**	**6,461,099**	**13,156,754**	**17,361,843**
Net OPEB obligation(asset)/liability - end of year	**(1,115,336)**	**371,248**	**(86,172)**	**(1,263,410)**	**(124,444)**	**6,461,099**	**13,156,754**	**17,361,843**	**21,402,956**
Percentage of Annual OPEB Cost Contributed	120.97%	72.53%	110.03%	125.53%	80.68%	0.00%	0.00%	37.29%	38.22%

Liability for Retirees Benefits:

	6/30/2008	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	6/30/14	6/30/2015	6/30/2016
Actuarial Present Value of Total Projected Benefits	116,833,138		107,253,647		135,465,518	147,623,061	141,515,678	141,515,678	132,001,364
Actuarial Accrued Liability (AAL)	93,378,693		87,651,507		114,656,841	120,114,689	107,412,110	107,412,110	105,366,963
Unamortized Initial Unfunded Actuarial Accrued Liability	(40,478,188)		(39,329,818)		(38,051,653)	(39,253,299)	(37,567,270)	(37,567,270)	(35,708,423)
OPEB Trust Market Value (Plan Assets)	(52,900,505)		(60,367,776)		(65,348,742)	(71,343,707)	(72,129,965)	(72,129,965)	(64,892,804)
Funding Ratio	56.7%		68.9%		57.0%	59.4%	67.2%	67.2%	61.6%
Unfunded Actuarial Liability	40,478,188		27,283,731		49,308,099	48,770,982	35,282,145	35,282,145	40,474,159

Mount San Antonio CCD

2015-16 Valuation Summary

General Comments:

Valuation of retiree health benefit required by Governmental Accounting Standards Board (GASB) Statements 43 and 45 since 2007.

Like pensions, retiree health benefits should be accrued while employees are working. A liability is accumulated for employees while they are working and the liability is reduced as benefits are paid for retirees.

Funding is not legally required, but accreditation agencies require a plan for managing the liability. Also, bond rating agencies expect a plausible liability management plan.

The current valuation satisfies the requirement for biennial valuations. The valuation uses actual participant demographic information as well as assumptions for mortality, retirement, turnover, etc. that are consistent with pension assumptions.

Mt SAC has been funding liabilities through a customized trust. We assumed the Trust would earn investment income at an average annual rate (net of expenses) of 5%.

Mt San Antonio CCD

As of 2/29/16, Mt SAC had funded about $64.9 million of its $105.4 million actuarial accrued liability (AAL). The amount necessary to amortize the remaining $40.5 million unfunded liability in 2016-17 is about $3.2 million over 21 years (the amount increases 2.75% each future year). In addition, Mt. SAC employees will accrue about $3.4 million of liability for benefits earned during 2016-17. At the same time, retirees are expected to use up $4.1 million of the liability for payment of retiree medical premiums. Taken together, the $3.2 million amortization plus the $3.4 million additional benefits accrual minus the $4.1 million liability reduction net to an increase of $2.5 million in liability. To keep up its funding level, Mt SAC should contribute at least $2.5 million to the Trust in the 2016-17 year (in addition to amounts paid for retiree premium from the budget).

Mt San Antonio CCD Auxiliary

As of 2/29/16, the Auxiliary had funded about $3.2 million of its $5.1 million actuarial accrued liability (AAL). The amount necessary to amortize the remaining $1.9 million unfunded liability in 2016-17 is about $152,000 over 21 years (the amount increases 2.75% each future year). In addition, Auxiliary employees will accrue about $45,000 of liability for benefits earned during 2016-17. At the same time, retirees are expected to use up $341,000 of the liability for payment of retiree medical premiums. Taken together, the $152,000 amortization plus the $45,000 additional benefits accrual minus the $341,000 liability reduction net to a decrease of $144,000. To keep up its funding level, the Auxiliary does not need to contribute anything to the Trust if retiree premiums are paid out of operating expenses.

Mount San Antonio Community College District

Actuarial Study of
Retiree Health Liabilities
As of March 1, 2016

Prepared by:
Total Compensation Systems, Inc.

Date: July 21, 2016

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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, 2016 (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, 2016. 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 21 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, 2016 to be $4,083,138 (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, 2016 (the normal cost) is $3,384,286. 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 $105,366,963. This amount is called the "actuarial accrued liability" (AAL). The remaining unamortized balance of the initial unfunded AAL (UAAL) is $35,708,423. This leaves a "residual" AAL of $69,658,540.

Mount San Antonio CCD has established a GASB 43 trust for future OPEB benefits. The actuarial value of plan assets at February 29, 2016 was $64,892,804. This leaves a residual unfunded actuarial accrued liability (UAAL) of $4,765,736. We calculated the annual cost to amortize the residual unfunded actuarial accrued liability using a 5% discount rate. We used an open 21 year amortization period. The current year cost to amortize the residual unfunded actuarial accrued liability is $371,709.

Combining the normal cost with both the initial and residual UAAL amortization costs produces an annual required contribution (ARC) of $6,541,113. 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, 2016. 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,

Geoffrey L. Kischuk, FSA, MAAA, FCA
Consultant
Total Compensation Systems, Inc.
(805) 496-1700

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 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, 2016 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, 2016 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, 2016

	Total	*Certificated*	*Classified*	*Management*
Active: Pre-65	$18,984,484	$8,150,444	$8,640,576	$2,193,464
Post-65	$60,748,672	$27,432,076	$25,707,784	$7,608,812
Subtotal	$79,733,156	$35,582,520	$34,348,360	$9,802,276
Retiree: Pre-65	$2,893,704	$628,993	$2,082,629	$182,082
Post-65	$49,374,504	$23,725,140	$20,452,650	$5,196,714
Subtotal	$52,268,208	$24,354,133	$22,535,279	$5,378,796
Grand Total	$132,001,364	$59,936,653	$56,883,639	$15,181,072
Subtotal Pre-65	$21,878,188	$8,779,437	$10,723,205	$2,375,546
Subtotal Post-65	$110,123,176	$51,157,216	$46,160,434	$12,805,526

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 37. To accrue the liability by retirement, the District would accrue the retiree liability over a period of about 24 years (assuming an average retirement age of 61). 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, 2016

	Total	*Certificated*	*Classified*	*Management*
# of Employees	975	391	468	116
Per Capita Normal Cost				
Pre-65 Benefit	N/A	$1,105	$856	$1,003
Post-65 Benefit	N/A	$2,821	$2,147	$2,823
First Year Normal Cost				
Pre-65 Benefit	$949,011	$432,055	$400,608	$116,348
Post-65 Benefit	$2,435,275	$1,103,011	$1,004,796	$327,468
Total	$3,384,286	$1,535,066	$1,405,404	$443,816

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 level dollar, closed 30 year amortization. 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 21 years at 5% interest. (Thirty years is the longest amortization period allowable under GASB 43 and 45.) GASB 43 and 45 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 level dollar, open 21 year amortization.

Actuarial Accrued Liability as of March 1, 2016

	Total	*Certificated*	*Classified*	*Management*
Active: Pre-65	$11,506,982	$4,765,395	$5,365,644	$1,375,943
Post-65	$41,591,773	$18,790,245	$17,493,674	$5,307,854
Subtotal	$53,098,755	$23,555,640	$22,859,318	$6,683,797
Retiree: Pre-65	$2,893,704	$628,993	$2,082,629	$182,082
Post-65	$49,374,504	$23,725,140	$20,452,650	$5,196,714
Subtotal	$52,268,208	$24,354,133	$22,535,279	$5,378,796
Subtot Pre-65	$14,400,686	$5,394,388	$7,448,273	$1,558,025
Subtot Post-65	$90,966,277	$42,515,385	$37,946,324	$10,504,568
Grand Total	$105,366,963	$47,909,773	$45,394,597	$12,062,593
Unamortized Initial UAAL	$35,708,423			
Plan assets at 2/29/16	$64,892,804			
Residual UAAL	$4,765,736			
Residual UAAL Amortization at 5% over 21 Years	$371,709			

3. Annual Required Contributions (ARC)

If the District determines retiree health plan expenses in accordance with GASB 43 and 45, costs 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, 2016

	Total
Normal Cost	$3,384,286
Initial UAAL Amortization	$2,785,118
Residual UAAL Amortization	$371,709
ARC	$6,541,113

Need to amortize the liability - 21 years left

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 applies to employers that don't fully fund the Annual Required Contribution (ARC) through an irrevocable trust.

- The annual OPEB cost (AOC) includes assumed interest on the net OPEB obligation (NOO). The annual OPEB cost also includes 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 equals 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*
2016	$4,083,138	$1,958,722	$1,621,237	$503,179
2017	$4,228,929	$2,029,690	$1,686,170	$513,069
2018	$4,534,326	$2,181,315	$1,811,862	$541,149
2019	$4,834,068	$2,315,487	$1,944,309	$574,272
2020	$5,116,937	$2,446,155	$2,067,491	$603,291
2021	$5,396,020	$2,557,825	$2,201,140	$637,055
2022	$5,653,604	$2,654,779	$2,329,568	$669,257
2023	$5,925,289	$2,770,014	$2,460,955	$694,320
2024	$6,208,785	$2,896,598	$2,589,738	$722,449
2025	$6,493,137	$3,019,642	$2,723,696	$749,799

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 21 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 2.75% per year.

INVESTMENT RETURN / DISCOUNT RATE: We assumed 5% per year. This is based on assumed long-term return on plan assets assuming 100% funding through Mount San Antonio Community College District. We used the "Building Block Method" as described in ASOP 27 Paragraph 3.6.2.

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 2.75% 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.

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	2014 CalPERS Active Mortality for Miscellaneous Employees

RETIREMENT RATES

Employee Type	*Retirement Rate Tables*
Certificated	2009 CalSTRS Retirement Rates
Management	Hired before 1/1/2013: 2009 CalPERS Retirement Rates for School Employees Hired after 12/31/2012: 2009 CalPERS Retirement Rates for Miscellaneous Employees 2%@60 adjusted to minimum retirement age of 52

VESTING RATES

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

COSTS FOR RETIREE COVERAGE

Actuarial Standard of Practice 6 (ASOP 6) provides that, as a general rule, retiree costs should be based on actual claim costs or age-adjusted premiums. This is true even for many medical plans that are commonly considered to be "community-rated." However, ASOP 6 contains a provision – specifically section 3.7.7(c) – that allows use of unadjusted premiums in certain circumstances.

Because the section 3.7.7(c) exception is new, there is not a consensus among practicing actuaries regarding the specific circumstances under which a section 3.7.7(c) exception may be invoked. It is my opinion that the section 3.7.7(c)(4) exception allows use of unadjusted premium for PEMHCA agencies if certain conditions are met. Other actuaries have taken the position that ASOP 6 does not explicitly allow use of unadjusted premium for any agencies participating in the CalPERS medical plan.

Prior to the most recent ASOP 6 revision, there was general agreement that ASOP 6 allowed use of unadjusted premium as a retiree cost basis for PEMHCA agencies (under section 3.4.5 of the prior version of ASOP 6). Since there have been no changes to the CalPERS medical plan, use of unadjusted premium must still be viewed as appropriate actuarial practice to the extent that it was under the prior version of ASOP 6. That means that if the current ASOP 6 section 3.7.7(c)(4) exception is not deemed to ***explicitly*** allow use of unadjusted premium as a retiree cost basis for Mount SAC , then it would be allowable as a "deviation." (Under GASB 45, there is no prohibition against using a "deviation.")

While I am confident that ASOP 6 section 3.7.7(c)(4) will ultimately be found to explicitly allow use of unadjusted premium as a retiree cost basis for most PEMHCA agencies, I cannot be certain that this will be the case if and when this issue is fully reviewed. Therefore, I am including disclosure information required for a "deviation" so that the valuation will not need to be revised in the event section 3.7.7(c)(4) should be found not to explicitly allow use of unadjusted premium. Following is the disclosure information that is required should a deviation be necessary.

Use of ***age-adjusted*** premium for the CalPERS medical plan results in an overstatement of Mount SAC Annual Required Contribution (ARC) and Actuarial Accrued Liability (AAL) to the extent that Mount SAC continues to participate in the CalPERS medical plan AND that the rate structure of the CalPERS medical plan continues in its

current form (i.e. with no rate distinction between active employees and retirees). In addition to the overstatement of OPEB costs and liabilities, Mount SAC policy of funding OPEB obligations could lead to an inability of Mount SAC to recover overfunded assets. It is important to note that, should Mount SAC leave the CalPERS medical plan, the subsequent plan may not qualify to use unadjusted premium rates. In this event, leaving the CalPERS medical plan would be comparable to a significant change in plan terms and would likely require a new valuation.

Following are the criteria we applied to Mount SAC to determine that it is reasonable to assume that Mount SAC future participation in PEMHCA is likely and that the CalPERS medical program as well as its premium structure are sustainable. (We also have an extensive white paper on this subject that provides a basis for our rationale entirely within the context of ASOP 6. We will make this white paper available upon request.)

The District participates in the CalPERS medical program. We have performed the required evaluation of the CalPERS medical program and we have determined that there is sufficient evidence to apply the 3.7.7.c.4 exception. Following are details regarding the evaluation based on the criteria we have set:

- **Plan qualifies as a "pooled health plan."** ASOP 6 defines a "pooled health plan" as one in which premiums are based at least in part on the claims experience of groups other than the one being valued." Since CalPERS rates are the same for all employers in each region, rates are clearly based on the experience of many groups.

- **Rates not based to any extent on the agency's claim experience.** As mentioned above, rates are the same for all participating employers regardless of claim experience or size.

- **Rates not based to any extent on the agency's demographics.** As mentioned above, rates are the same for all participating employers regardless of demographics.

- **No refunds or charges based on the agency's claim experience or demographics.** The terms of operation of the CalPERS program are set by statute and there is no provision for any refunds and charges that vary from employer to employer for any reason. The only charges are uniform administrative charges.

- **Plan in existence 20 or more years.** Enabling legislation to allow "contracting agencies" to participate in the CalPERS program was passed in 1967. The CalPERS medical plan has been successfully operating for almost 50 years. As far back as we can obtain records, the rating structure has been consistent, with the only difference having been a move to regional rating which is unrelated to age-adjusted rating.

- **No recent large increases or decreases in the number of participating plans or enrollment.** The CalPERS medical plan has shown remarkably stable enrollment. In the past 10 years, there has been small growth in the number of employers in most years – with the maximum being a little over 2% and a very small decrease in one year. Average year over year growth in the number of employers over the last 10 years has been about 0.75% per year. Groups have been consistently leaving the CalPERS medical plan while other groups have been joining with no disruption to its stability.

- **Agency is not expecting to leave plan in foreseeable future.** The District does not plan to leave CalPERS at present.

- **No indication the plan will be discontinued.** We are unaware of anything that would cause the CalPERS medical plan to cease or to significantly change its operation in a way that would affect this determination.

- **The agency does not represent a large part of the pool.** The District is in the CalPERS "Los Angeles" region. Based on the information we have, the District constitutes no more than 2.3% of the LA pool. In our opinion, this is not enough for the District to have a measurable effect on the rates or viability of the LA pool.

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.

Employee Type	*Future Retirees Pre-65*	*Future Retirees Post-65*
Certificated	Hired after 1995: $7,174	Hired after 1995: $4,655
	Hired before 1996: $9,809	Hired before 1996: $7,255
Classified	Hired after 1995: $6,969	Hired after 1995: $4,321
	Hired before 1996: $9,681	Hired before 1996: $5,954
Management	Hired after 1995: $7,174	Hired after 1995: $4,741
	Hired before 1996: $9,809	Hired before 1996: $6,660

PARTICIPATION RATES

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

TURNOVER

Employee Type	*Turnover Rate Tables*
Certificated	2009 CalSTRS Termination Rates
Classified	2009 CalPERS Turnover for Miscellaneous Employees

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.

APPENDIX D: DISTRIBUTION OF ELIGIBLE PARTICIPANTS BY AGE

ELIGIBLE ACTIVE EMPLOYEES

Age	*Total*	*Certificated*	*Classified*	*Management*
Under 25	4	0	4	0
25-29	24	2	21	1
30-34	65	18	44	3
35-39	115	39	63	13
40-44	131	57	54	20
45-49	180	80	85	15
50-54	171	68	78	25
55-59	149	61	67	21
60-64	87	37	36	14
65 and older	49	29	16	4
Total	975	391	468	116

ELIGIBLE RETIREES

Age	*Total*	*Certificated*	*Classified*	*Management*
Under 50	0	0	0	0
50-54	8	0	7	1
55-59	12	5	7	0
60-64	63	20	39	4
65-69	119	59	52	8
70-74	104	49	46	9
75-79	92	49	29	14
80-84	63	26	25	12
85-89	55	24	19	12
90 and older	40	20	9	11
Total	556	252	233	71

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 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.

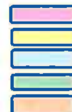
Appendix C
2017-18 BUDGET DEVELOPMENT CALENDAR

(November 16, 2016)

DESCRIPTION OF TASK	DUE DATE
Fiscal Services Updates and Projects Personnel Budget (Changes through January 13, 2016 Board Agenda)	01/27/17
Fiscal Services Distributes Status Quo Budget Templates to Departments for Tentative Budget Changes/Analysis	03/01/17
Fiscal Services Prepares Preliminary Tentative Budget	03/08/17
Departments Complete Status Quo Budget Review; Then Sends to Deans/Directors	03/14/17
Budget Committee Reviews Preliminary Tentative Budget	03/15/17
Budget Committee Determines and Communicates New Resources Available	03/15/17
Budget Committee Reviews One-time New Resources Allocation Requests previously funded	03/15/17
Budget Committee Sends Communication Campus Wide Regarding New Resources Allocation Process	03/22/17
Deans/Directors Review and Approve Department's Status Quo Budgets; Then Sends to VPs	03/28/17
Vice Presidents Review and Approve Department's Status Quo Budgets; Then Sends to Fiscal	04/11/17
Departments Prioritize New Resources Requests for One-Time Funding in their PIE Forms	05/15/17 to 06/30/17 *
Budget Committee Reviews the Completed Tentative Budget	06/07/17
Fiscal Services Completes the Tentative Budget and Prepares Board Agenda Item	06/09/17
President's Cabinet Makes Final Decision on Funding for One-time New Resources Allocation Requests Previously Funded . (The review is for New Resources Allocation Requests that have been funded in the previous year (s) that need funding on July 1 and decision for funding can not wait until October)	06/13/17
Tentative Budget Submitted for Board Approval	06/28/17
Deans/Directors Prioritize Department's New Resource Allocation Requests	07/03/17 to 08/01/17 *
Fiscal Services' Deadline for 2016-17 Year-End Closing	07/20/17
Vice Presidents Prioritize Team's New Resource Allocation Requests	08/02/17 to 08/14/17 *
Budget Committee Reviews the Completed Adopted Budget	09/06/17
Board of Trustees Approves Adopted Budget	09/13/17
Budget Committee Finalizes Review of New Resource Allocation Requests and Forwards to President's Advisory Council	09/20/17
President's Advisory Council Reviews New Resources Allocation Requests and Forwards to President's Cabinet	09/27/17
President Makes Final Decision on New Resources Requests Based on President's Cabinet Recommendations; and Budget Committee and President's Advisory Council Reviews	10/03/17
Fiscal Services Receives Listing of New Resources Allocation Requests with Approved Funding	TBD
Fiscal Services Notifies Departments that have New Resources Allocation Requests with Approved Funding and Requests Supporting Documentation (quotes, invoices, job descriptions, etc.) and Allocates Funding	TBD
Fiscal Services Reports New Resources Allocation funded Requests to Budget Committee and President Advisory Council	TBD

LEGEND:

Budget Committee
Department level
Administrative Level
Other Groups
Fiscal Services



*** Timeframe**

Mount San Antonio CCD

2015-16 Valuation Summary

General Comments:

Valuation of retiree health benefit required by Governmental Accounting Standards Board (GASB) Statements 43 and 45 since 2007.

Like pensions, retiree health benefits should be accrued while employees are working. A liability is accumulated for employees while they are working and the liability is reduced as benefits are paid for retirees.

Funding is not legally required, but accreditation agencies require a plan for managing the liability. Also, bond rating agencies expect a plausible liability management plan.

The current valuation satisfies the requirement for biennial valuations. The valuation uses actual participant demographic information as well as assumptions for mortality, retirement, turnover, etc. that are consistent with pension assumptions.

Mt SAC has been funding liabilities through a customized trust. We assumed the Trust would earn investment income at an average annual rate (net of expenses) of 5%.

Mt San Antonio CCD

As of 2/29/16, Mt SAC had funded about $64.9 million of its $105.4 million actuarial accrued liability (AAL). The amount necessary to amortize the remaining $40.5 million unfunded liability in 2016-17 is about $3.2 million over 21 years (the amount increases 2.75% each future year). In addition, Mt. SAC employees will accrue about $3.4 million of liability for benefits earned during 2016-17. At the same time, retirees are expected to use up $4.1 million of the liability for payment of retiree medical premiums. Taken together, the $3.2 million amortization plus the $3.4 million additional benefits accrual minus the $4.1 million liability reduction net to an increase of $2.5 million in liability. To keep up its funding level, Mt SAC should contribute at least $2.5 million to the Trust in the 2016-17 year (in addition to amounts paid for retiree premium from the budget).

Mt San Antonio CCD Auxiliary

As of 2/29/16, the Auxiliary had funded about $3.2 million of its $5.1 million actuarial accrued liability (AAL). The amount necessary to amortize the remaining $1.9 million unfunded liability in 2016-17 is about $152,000 over 21 years (the amount increases 2.75% each future year). In addition, Auxiliary employees will accrue about $45,000 of liability for benefits earned during 2016-17. At the same time, retirees are expected to use up $341,000 of the liability for payment of retiree medical premiums. Taken together, the $152,000 amortization plus the $45,000 additional benefits accrual minus the $341,000 liability reduction net to a decrease of $144,000. To keep up its funding level, the Auxiliary does not need to contribute anything to the Trust if retiree premiums are paid out of operating expenses.