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MENDOCINO COUNTY'S RETIREE HEALTHCARE BENEFITS DEBT

This is an excerpt from a much larger report:

Mendocino County's Long-Term Debt

Attached is separate report

County of Mendocino Retirement Health Plan

Actuarial Valuation Study

Aon Consulting, August 21, 2008

I. RETIREE HEALTHCARE-RELATED COUNTY DEBT

This section deals with one of the two main types of Mendocino County retiree benefit-related debt - Healthcare. (The other relates to Pension debt.)

A. Mendocino County's Retiree Healthcare Benefit

In contrast to the separate MCERA Pension Fund, retiree healthcare payments are paid out of the County's General Fund, and the County directly manages this plan. The County is "self-insured", which means that the County doesn't buy any form of insurance, but instead takes the entire risk for having to pay these expenses, regardless of how much they may be in any one year. In the past retiree healthcare benefit payments have been reimbursed out of "excess earnings" in the MCERA Pension Fund.

Before 1998 all County employees had access to retiree healthcare benefits. In September of that year the County Board of Supervisors changed the benefit. Only employees who were hired before September 1998 are eligible for this benefit. Those hired after September 1998 are not eligible for healthcare benefits during retirement. Employees hired before September 1998 have to serve at least 10 years and satisfy the other requirements for retirement to receive the benefit. (Footnotes to some of the County's audited financial statements state "If the retiree has less than ten years of services, then the retiree pays a percentage of the medical benefits.")

As of 6/08 retirees received their own healthcare benefits without payment of a premium, but paid $510/month for dependents (spouses and children). Dependent healthcare benefits terminate upon the termination of the retiree's benefits, including the retiree's death. A very wide range of healthcare benefits are provided by the plan, subject to various deductibles, co-pays, and limits.

B. New Accounting Requirements - Report Unfunded Retiree Healthcare Liability

The Government Accounting Standards Board (GASB) issued requirements in 1994 that forced the County to begin to report its Unfunded Pension Liability in 1998. GASB then immediately began a very public debate about whether or not it should require local governments to apply the same rules to all their retiree benefits, not just pensions. GASB finally issued Statements 43 and 45 in 2004. These new rules require the County to begin reporting the financial condition of its retiree healthcare benefits in its audited financial statements for June 30, 2008.[1]

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[1] The County Board of Supervisors, County Administration, and the MCERA Board have known about these requirements for years, and should have seen them coming over a decade ago. As just one of many examples, the Board of Supervisors and the Pension Fund Board held a joint meeting on November 1, 2005. During the public comment section of the meeting, I raised the issue of the new GASB requirements about the County's retiree healthcare liabilities. At that point we knew the County had borrowed over $100 million to partially fill its Unfunded Pension Liability. Is there an Unfunded Healthcare Liability, and if so, how big is it? I urged the County and MCERA to take this issue seriously and figure out what the Unfunded Liability is. It would be much better to know years before it would be required to be disclosed in the financial statements what the scale of the problem was going to be so that they could begin to prepare for it.

After I raised these issues, the minutes of the meeting state "staff is aware of these pending regulatory changes and these issues are being monitored by staff".[1] But the Board of Supervisors and County

C. August 2008 News - $136 Million Dollar Unfunded Retiree Healthcare Liability!

At the very last moment the County hired an Actuary - Aon Consulting - to determine that amount. The Actuary released this report on August 21, 2008 - two months after the new GASB rules took effect. The value of the Unfunded Retiree Healthcare Liability is about $136.3 million today. [2]

In contrast to its Pension Obligations, the County has not set funds aside to pay this liability. This will all be paid by tax and rate payers in the future - decades after the employees have retired. The County's "Plan" is to figure out each year how much it thinks it will have to pay for the next year and figure out how it will be able to pay for it. What will those future payments be?

D. Future Retiree Healthcare Payments - Far More Unpredictable than Pensions

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Administration didn't get a professional calculation of the Unfunded Retiree Healthcare Liability until the August 21, 2008 report from Aon Consulting.

[2] The County squandered a decade in which they could have made this problem easier to deal with. But instead, they put it off absolutely to the point at which the GASB gun was to their head before they even figured out how bad the problem is. Now, in one stroke, the citizens of Mendocino County find out that their Long Term Retiree Benefit Debt is MORE THAN DOUBLE what we thought it was. The total Pension Obligation Bonds and Unfunded Pension Liability is $125 million. Our Unfunded Retiree Healthcare Liability is $136 million.

This graph shows the actual payments by the County for retiree healthcare as reported in its audited financial statements (fiscal years 1993 through 2007) and as projected by Aon Consulting Actuaries for fiscal years 2008 through 2037.

Payments gradually climbed from 1993 to 2002. But then the rate of increase nearly doubled from 2003 to 2006. They declined in 2007. But the Actuary projects payments growing rapidly as retirees age and need more healthcare - over $6 million by 2010.

There is a huge difference regarding the accuracy of projections of payments for the two retiree benefits. When a qualified employee retires a set formula determines the pension. The only uncertainties from then on are a) what the annual cost of living adjustment will be, and b) how long the retiree will live. The basic monthly payment is highly predictable.

But there are two additional factors that make healthcare payment projections far less certain. A catastrophic illness or accident can suddenly increase a person's healthcare costs by a huge amount.

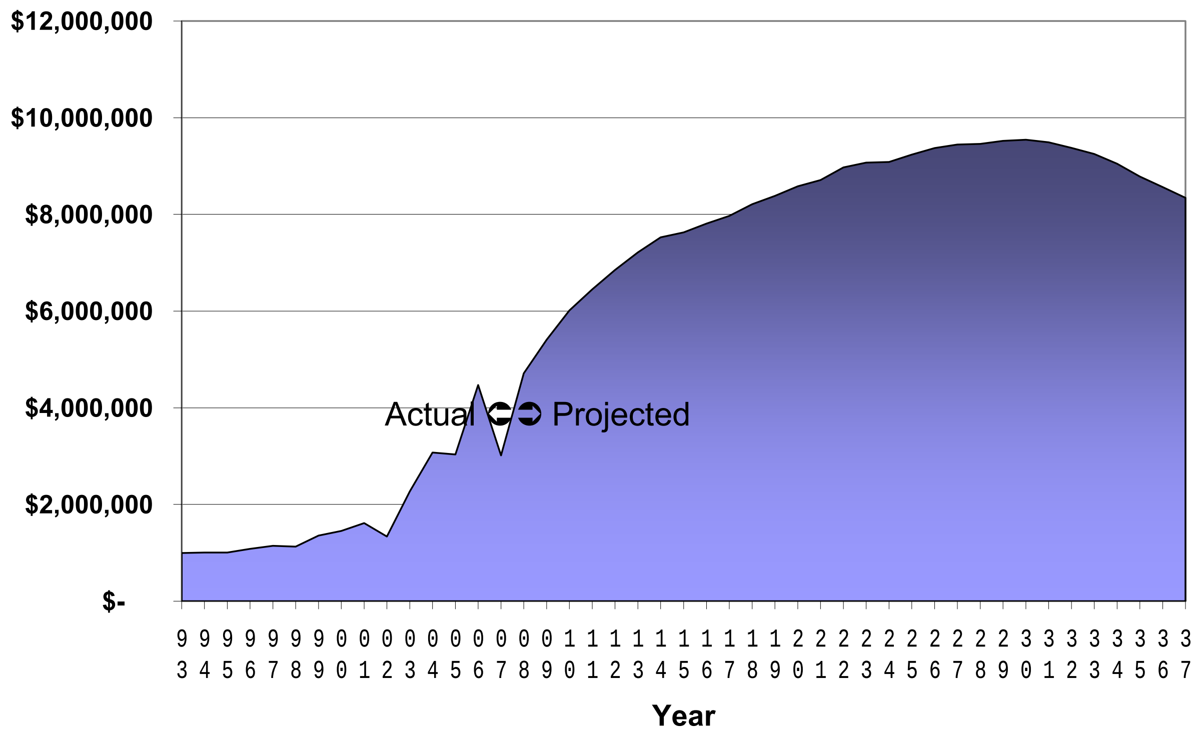

Figure 1 - Actual and Projected Retiree Healthcare Payments Already Earned

Then there is the unpleasant reality that, on average, a very high percentage of lifetime healthcare costs for Americans is incurred in our last few months of life. Combining these two additional factors will make the County's retiree healthcare payments extremely volatile.

Because the County is "self-insured" it must absorb all the volatility of healthcare payments. The actual future payments will almost certainly be significantly different from the nice predicted smooth curve in the graph above. The County does not have any funds specifically in reserve to pay for unexpected sudden spikes in payments. We can expect sudden steep "spikes" in payments that would lead to equally sudden reductions in spending for current services. (Note the spike in 2006 in the graph above.)

E. <u>Is the Retiree Healthcare Benefit a Legal Obligation?</u>

This is Note 13: <u>Post-Retirement Benefits</u> on page 54 of the County's audited financial statements for June 30, 2007:

The County pays ***in accordance with County ordinance*** *(emphasis added), post-retirement medical benefits for retirees who have at least ten years of County service. If the retiree has less than ten years of service, then the retiree pays a percentage of the medical benefits. The benefits paid by the County are funded on a pay-as-you-go basis.*

This next quote is from a report by the County CEO and Human Resources Department to the Board of Supervisors regarding the difficulty of financing the retiree healthcare benefit[3]:

> ***These benefits were provided on a voluntary basis and were funded by the Retirement System. The benefits were not negotiated, nor were they subject to inclusion in County agreements with bargaining units****. ...*

Most County officials deny that the County has a legal obligation to make these payments. If so, then the "strategies" to reduce the cost of the benefit to the County would be totally within the discretion of the County Board of Supervisors to implement.

The union that represents County employees - SEIU - has stated it believes these are negotiated obligations - therefore legally enforceable.

On balance, it appears that the County has the authority to unilaterally change the terms of this benefit, although a specific legal analysis has not been performed for this paper.

However, the County has provided retiree healthcare along these lines now for 12 years. The Actuary must assume the County intends to continue to do so, and therefore the projected payments shown on page 3 must be the County's official debt payment projections until the County changes the basic plan.

F. The County's Financial Organization of Retiree Healthcare is Extremely Risky

Sonoma County's Board of Supervisors, facing a similar situation, made headlines recently by cutting retiree healthcare benefits[4].

> *Convinced that the county no longer can afford spiraling health insurance premiums, Sonoma County supervisors told thousands of retirees and employees Tuesday that they will have to pay an increasing share of the cost. ...*
>
> *Currently, the county provides non-union workers 85 percent of the premium for any plan selected, and gives retirees 85 percent of the lowest-cost premium, either for an individual or couple.*
>
> *Under the adopted recommendations, there will be a gradual reduction of 20 percent annually over the next five years in the county's contribution to retiree and non-union health benefits to $500 a month....*

Sonoma County's program is fundamentally different from Mendocino County's. Sonoma's program is more of a "Guaranteed Contribution" program. Sonoma pays a set amount toward the retiree's healthcare insurance premium. Mendocino's is more of a "Guaranteed Benefit" program. Mendocino pays the retiree's medical bills, subject to deductions, co-pays, etc.

There's another very significant difference. Sonoma County helps pay for insurance, Mendocino County _is_ the insurance. Mendocino County does not buy insurance - it is "self insured". Sonoma County's risk is limited by its contract with a separate insurance company. The insurance company assumes the risk

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[3] _Retiree Health Benefits_, Report to the Mendocino County Board of Supervisors From the County Executive Office and Human Resources Department, September 16, 2008

[4] _County Cuts Health Benefits_, Santa Rosa Press Democrat, August 20, 2008

that healthcare payments in any year could be far greater than expected. In contrast, Mendocino takes all the risk that medical payments could spike. And since the County has failed to set up a reserve to protect itself from this risk, Mendocino County's budget is totally vulnerable to a sudden increase in total retiree healthcare costs.

Mendocino's financial organization of its retiree healthcare benefit is hugely more risky to the County's finances than is Sonoma's.

G. What "Excess" Pension Fund Earnings?

In the past the County paid the healthcare benefits and was reimbursed by its independent Pension Fund (Mendocino County Employee Retirement Association). It's going to be very difficult for MCERA to do that this year.

County officials claim that the source of MCERA's reimbursements has been "Excess Earnings" in MCERA. As one example, this quote is from a report to the County Board of Supervisors from the County CEO and Human Resources Department:

> *A weak economy has reduced investment earnings for retirement systems throughout the State.* ***"Excess" earnings from investments have fully funded retiree health benefits in Mendocino County*** *(emphasis added), as well as in many other counties ...*[5]

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[5] *Retiree Health Benefits, Report to the Mendocino County Board of Supervisors From the County Executive Office and Human Resources Department*, 9/16/08

Figure 2 shows the County's actual payments for retiree healthcare (from audited financial statements). From 1993 through 2007 a total of $28 Million was paid for these benefits.

Look again at **Error! Reference source not found.** on page **Error! Bookmark not defined.**, There has been an Unfunded Pension Liability at least since 1993. Look at **Error! Reference source not found.** on page **Error! Bookmark not defined.**. MCERA's return on its investments were 17% less than required over 10 years - the worst performing county retirement system in the state!

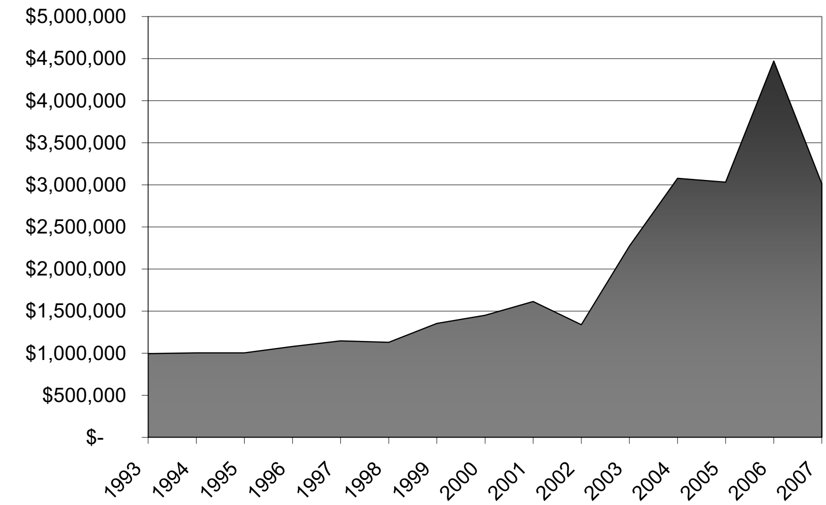

Figure 2 - Retiree Healthcare Payments - Mendocino County

If there were Excess Earnings in the County Pension Fund, why did the County have to borrow over $100 million in Pension Obligation Bonds? If there were Excess Earnings, why was the County Pension Fund at least $30 million or so underfunded in 2006 - the most recent report? If there were excess earnings, how could the Unfunded Pension Liability increase every year from 1993 through 2004?

The plain truth is there haven't been Excess Earnings in the County's Pension Fund - at least not in the "Common Sense" definition of that term most citizens would understand. "Excess Earnings" would mean the Pension Fund had earned a higher rate of return on its investments than needed to be fully funded. It would mean the Pension Fund can pay all future pension payments that have been earned by employees and have money left over. It would mean the County would not have had to go into $109 million of debt because of Unfunded Pension Liabilities. MCERA has not been in that position - ever!

It's simply and plainly absurd to claim that the County's Pension Fund has had "Excess Earnings".

If the $27 Million that was paid out of MCERA to the County to reimburse the County's retiree healthcare payments had remained in the Pension Fund and earned the actual returns for MCERA over those years, the Fund would have had an additional <u>$62 Million</u>. This is about 60% of the amount paid by the County from the Pension Obligation Bonds to MCERA to cover Unfunded Pension Liabilities.

H. <u>Pressure to "Cut" Retiree Healthcare Benefits</u>

1. <u>A Crisis That Should Have Been Avoided</u>

The County Board of Supervisors and Management since 1996 has needlessly forced an extremely difficult and painful decision on their successors - whether to substantially reduce and change the nature of the retiree healthcare benefit. When Sonoma County's Board of Supervisors cut retiree healthcare benefits recently, an aspect of the cost of making promises that can't be kept was pointedly displayed. We all have this to look forward to over the next 5 years.

> *Chip Atkin, a county social worker and union organizer, said, "You have lost the trust of the employees and retirees, and you risk losing the trust of the public." ... Retirees and employees argued they had accepted years of wage concessions in exchange for pledges of future health care benefits for them as well as their dependents.*
>
> *However, (County Supervisor) Brown said those promises of health benefits were now in conflict with other financial crises, such as the mortgage lending meltdown that has contributed to a flagging economy and plummeting government revenues. "I was not here for all the promises and I have to deal with the budget that is terrible," Brown said. "I know from the way you're shaking your heads that is a no-win."*[6]

2. <u>The 1998 Board of Supervisors Decision Regarding Retiree Healthcare</u>

County officials say the Board of Supervisors took a very responsible and far-sighted action when it changed the retiree healthcare benefit in 1998. The change was to limit the benefit to those hired before September 1998; those hired after that date don't have access to the benefit.

But the County didn't start setting aside funds to pay for retiree healthcare. They didn't start reporting the liability that was building up. They waited a decade to figure out what the County was going to have to pay for this promise.

The County Board of Supervisors allowed employees to plan their retirements for the last 10 years assuming they were going to get this benefit. And now, when the Supervisors finally see the huge increase in debt payments the County is facing, and realize the days of "phantom Excess Earnings" reimbursements from MCERA are probably over, the Supervisors are starting to let retirees know that the benefit may "have to be changed".

Responsible? Far-sighted?

Some citizens believe these benefits are too excessive and unaffordable, and way out of proportion with those for employees in the private sector. Perhaps. But would they also think the right thing to do is to wait until people are retired to let them know they have to find other ways of paying for health care?

I. <u>Deal With the Retiree Healthcare Financing Problem Now</u>

As identified on page 8, our County's retiree healthcare system is very risky:

- The County has not set aside funds to pay this benefit.
- Instead of purchasing insurance Mendocino County is "self-insured". Mendocino County takes the entire risk of sudden substantial increases in retiree medical costs.
- Because this benefit is a "Guaranteed Benefit" instead of a "Guaranteed Contribution" - the financial risk to the County is very much greater.

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6 *<u>County Cuts Health Benefits</u>*, Santa Rosa Press Democrat, August 20, 2008

By waiting until most of the people eligible for this benefit are already retired, the County has assured that any changes in this benefit are going to be both excruciatingly difficult and much more costly. At a minimum, the County should evaluate some sort of "extraordinary" insurance coverage to prevent sharp spikes of unexpected healthcare costs from wrecking the County's budget. It may well be too late to obtain a "regular" retiree healthcare insurance policy. Is there a way a retirement healthcare policy could be offered to current employees and somehow combined with current retirees on the current system to create a group that could receive a more affordable overall cost? What the County <u>must not do</u> is to play around on the margins of the retiree healthcare benefit on a yearly basis just trying to patch it together for one more year. It is only going to get worse and worse.

County of Mendocino

Retirement Health Plan

Actuarial Valuation Study

Valuation Date: July 1, 2007

Date of Report: August 21, 2008

Executive Summary

Background

The County of Mendocino provides healthcare benefits for eligible employees who are hired before September 1998 and who retire from active employment with the County after age 50 with 10 years of service

Under the plan, the County makes payment for the eligible retirees' medical and drug costs. Eligible dependents may receive coverage if they pay the required contribution, currently $510 per month.

GASB 45

In June 2004, the Governmental Accounting Standards Board (GASB) issued GASB Statement 45, which addresses accounting and financial reporting for Postemployment Benefits Other Than Pensions (OPEB). This statement replaces and significantly modifies prior guidance. GASB 45 is effective for government entities as early as fiscal years beginning after December 15, 2006.

There are several reasons an agency should review its OPEB obligations sooner rather than later, such as:

- Pre-funding alternatives – although funding is not required, an unfunded plan results in higher balance sheet liabilities and costs
- Bargaining issues – recognizing how the obligation will impact the collective bargaining process in the near and long term
- Bond rating – potential impact to the cost of debt due to unfunded liabilities

The liabilities and annual costs for the County's contribution promises to retirees are calculated in this actuarial valuation in accordance with GASB 45. Similar to most government entities, the County does not currently prefund contributions in a qualified irrevocable trust or recognize OPEB liability as benefits are accrued. As this report shows, any required accrual determined on a GASB basis will be considerably higher than the amount on a pay-as-you-go basis.

This actuarial valuation determines the liabilities and annual costs for benefits assuming the County adopts GASB 45 for the fiscal year ending June 30, 2008.

Executive Summary (cont.)

ARC Development

GASB requires an Annual Required Contribution (ARC) to be developed each year based on the Plan's assets and liabilities. Although GASB does not actually require prefunding, the portion of the ARC that is not funded each year accumulates as a liability on the County's financial statements.

The ARC can be developed under a variety of funding methods. This report shows results under two of the methods permitted – Aggregate and Entry Age Normal. We also show the ARC calculated using different amortization periods as a level percent of pay.

Summary of Results

Liabilities

There are a few terms to understand related to the Plan's liabilities. The Present Value of Benefits (PVB) represents the actuarial present value of all future benefits expected to be paid to current employees and retirees. The Actuarial Accrued Liability (AAL) is the portion of the PVB attributable to past service. The Normal Cost is the portion of the PVB that is allocated to the current plan year for active employees.

Each liability is a present value calculated by using a selected discount rate. Results in this report are shown using a 5.0% discount rate. In order to understand the sensitivity of results to changing this assumption, we also show results based on a 7.75% discount rate. The table below summarizes the liability results based on these two discount rates as of July 1, 2007:

	5.0%	7.75%
Present Value of Benefits (PVB)	$140,924,000	$97,799,000
Actuarial Accrued Liability (AAL)	$129,377,000	$92,108,000
Normal Cost	$1,747,000	$995,000

Note: The AAL and normal cost shown above were calculated by spreading costs over the participants' working lifetimes as a level percentage of pay. The costs could also be spread as level dollar amounts.

As an explanation of the meaning of the discount rate, the PVB using a 7.75% discount rate implies that if the County invested $97,799,000 today in an interest bearing account that earns 7.75%, the liabilities would be fully funded. By comparison, if the interest bearing account were to only earn 5.0%, $140,924,000 would be required to fully fund the liability.

Executive Summary (cont.)

Discount Rate Selection

As illustrated above, the discount rate can have a considerable impact on the magnitude of the liabilities, with lower discount rates resulting in higher liabilities. As guidance in selecting an appropriate discount rate, GASB states that the discount rate should be based on the long-term yield of investments used to finance the benefits.

For example, if the County were to pre-fund the obligations by contributing into a trust with a mix of asset classes, 7.75% might be an appropriate discount rate. However, for an unfunded plan or in the case where contributions are simply allocated to separate accounts, but still reside in general assets, it is more appropriate to consider the return on general County assets. The liabilities shown in the report are based on a 5.0% discount rate, assuming the plan is unfunded. A policy of partial pre-funding would result in a discount rate blended between these two rates.

If the County wanted to better understand the long term advantages and disadvantages to pre-funding in a trust, a study which projects cash flow, accrual amounts, and balance sheet obligations based on current and future participants should be performed.

Annual Required Contributions (ARC)

As discussed above, the ARC can be developed using various methodologies. Selecting an appropriate method and amortization period for funding the liabilities is a balance between the County's ability to pay costs immediately and the long-term cost of borrowing.

The following table summarizes the ARC under the methodologies provided in the report based on both the 5.00% and 7.75% discount rates for the fiscal year ending June 30, 2008:

	5.00%	7.75%
Aggregate Method	$17,346,000	$13,600,000
% of pay	68.7%	53.8%
Entry Age Normal Method		
30 year amortization	$7,372,000	$6,634,000
% of pay	29.2%	26.3%
20 year amortization	$9,516,000	$8,067,000
% of pay	37.7%	31.9%
10 year amortization	$16,009,000	$12,633,000
% of pay	63.4%	50.0%

The payroll that the percentage of pay figures shown above are based on only includes active employees eligible for benefits, i.e., hired before September 1998.

These annual costs can be compared to the estimated pay-as-you-go funding amount of $4,713,000.

Executive Summary (cont.)

The difference in the cost methods is the period over which past service liabilities are spread. The aggregate method spreads unfunded past service liabilities over the future working lifetimes of active participants while the entry age normal method spreads unfunded past service liabilities over the specified amortization period. It should be noted that the entry age normal method with costs spread as a level percent of pay is used to determine the ARC for the Mendocino County Employees' Retirement Association plan.

The results shown are developed by spreading costs as a level percent of payroll ($25.3 million), as compared to a level dollar amount. Funding as a percent of payroll reduces current costs but increases future costs as County payroll increases. Funding over a longer period reduces annual costs but extends the funding period.

Sensitivity to Healthcare Trend

The healthcare trend rate also has a significant effect on the amounts reported. To illustrate, increasing the healthcare trend rates by one percentage point each year would increase the accrual by approximately 15%-16%.

* * *

The following report shows the details of results by participant status and benefits provided, based on a 5.0% discount rate.

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1. Actuarial Valuation Certificate

This report presents the results of the actuarial valuation for the County of Mendocino Retirement Health Plan as of July 1, 2007 for development of the Annual Required Contribution and disclosure items under Governmental Accounting Standards Board (GASB) Statement 45.

This report was prepared using generally accepted actuarial practices and methods. The actuarial assumptions used in the calculations are individually reasonable and reasonable in aggregate.

Aon Consulting did not audit the employee data and financial information used in this valuation. On the basis of our review of this data, we believe that the information is sufficiently complete and reliable, and that it is appropriate for the purposes intended.

Actuarial computations under GASB 45 are for purposes of fulfilling employer accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of these accounting standards. Determinations for purposes other than meeting Employer financial accounting requirements may be different from these results. As required by GASB 45, this valuation assumes this will be an ongoing plan. However, this assumption does not imply any obligation by the employer to continue the plan.

This report is intended for the sole use of the County of Mendocino. It is intended only to supply information for the County to comply with the stated purpose of the report and may not be appropriate for other business purposes. Reliance on information contained in this report by anyone for other than the intended purposes, puts the relying entity at risk of being misled because of confusion or failure to understand applicable assumptions, methodologies, or limitations of the report's conclusions. Accordingly, no person or entity, including the County of Mendocino should base any representations or warranties in any business agreement on any statements or conclusions contained in this report without the written consent of Aon Consulting.

The actuaries whose signatures appear below are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. The actuaries are available to answer any questions with regard to the matters enumerated in this report.

1. Actuarial Valuation Certificate (cont.)

Aon's relationship with the Plan and the Plan Sponsor is strictly professional. There are no aspects of the relationship that may impair or appear to impair the objectivity of our work.

Respectfully submitted,

Bradley J. Au, MAAA
Senior Vice President

Tele: (213) 996-1729
brad_au@aon.com

Anil Kochhar, ASA, MAAA
Assistant Vice President

Tele: (415) 486-7217
anil_kochhar@aon.com

Aon Consulting
707 Wilshire Boulevard
Suite 2600
Los Angeles, CA 90017

August 21, 2008

2. Plan Liabilities

The liabilities shown in this exhibit were calculated using a 5.0% discount rate as of the July 1, 2007 valuation date. They are utilized in the development of the Annual Required Contribution (ARC) under various alternatives shown in the following exhibit.

While GASB 45 allows the development of the ARC under various funding cost methods, this report shows the ARC under the Aggregate and Entry Age Normal cost methods, which are based on the following PVB and AAL liabilities, respectively.

The **Present Value of Benefits (PVB)** represents the actuarial present value of all benefits ever to be paid to current employees and retirees. The PVB follows:

	General	Safety	Probation	Total
PVB				
Medical – Pre 65				
Actives	$ $7,821,000	$ 4,467,000	$ 1,050,000	$ 13,338,000
Retirees	13,189,000	2,282,000	709,000	16,180,000
Subtotal	$ $21,010,000	$ 6,749,000	$ 1,759,000	$ 29,518,000
Medical – Post 65				
Actives	$ 12,252,000	$ 1,262,000	$ 375,000	$ 13,889,000
Retirees	19,911,000	2,783,000	495,000	23,189,000
Subtotal	$ 32,163,000	$ 4,045,000	$ 870,000	$ 37,078,000
Drugs – Pre 65				
Actives	$ 2,021,000	$ 1,150,000	$ 271,000	$ 3,442,000
Retirees	3,461,000	598,000	186,000	4,245,000
Subtotal	$ 5,482,000	$ 1,748,000	$ 457,000	$ 7,687,000
Drugs – Post 65				
Actives	$ 15,697,000	$ 1,616,000	$ 480,000	$ 17,793,000
Retirees	25,665,000	3,583,000	635,000	29,883,000
Subtotal	$ 41,362,000	$ 5,199,000	$ 1,115,000	$ 47,676,000
Administrative Expenses				
Actives	$ 5,389,000	$ 998,000	$ 275,000	$ 6,662,000
Retirees	10,331,000	1,653,000	319,000	12,303,000
Subtotal	$ 15,720,000	$ 2,651,000	$ 594,000	$ 18,965,000
Total				
Actives	$ 43,180,000	$ 9,493,000	$ 2,451,000	$ 55,124,000
Retirees	72,557,000	10,899,000	2,344,000	85,800,000
Total PVB	$ 115,737,000	$ 20,392,000	$ 4,795,000	$ 140,924,000
PVB Per Participant				
Actives	$ 116,000	$ 136,000	$ 144,000	$ 120,000
Retirees	$ 130,000	$ 142,000	$ 180,000	$ 132,000

2. Plan Liabilities (cont.)

The **Actuarial Accrued Liability (AAL)** is a portion of the PVB attributable to past service. For retirees and fully eligible active employees, the AAL is equal to the PVB. For other active employees, the AAL is the portion of the PVB deemed to be accrued to date. The **Normal Cost** is the portion of the PVB that is allocated to the current plan year for active employees.

The AAL in this report is based on the Entry Age Normal cost method and has been developed by spreading costs as a level percentage of payroll.

The AAL developed by spreading costs as a level percentage of payroll follows:

	General	Safety	Probation	Total
AAL				
Medical – Pre 65				
Actives	$ 5,739,000	$ 3,168,000	$ 716,000	$ 9,623,000
Retirees	13,189,000	2,282,000	709,000	16,180,000
Subtotal	$ 18,928,000	$ 5,450,000	$ 1,425,000	$ 25,803,000
Medical – Post 65				
Actives	$ 10,058,000	$ 1,085,000	$ 323,000	$ 11,466,000
Retirees	19,911,000	2,783,000	495,000	23,189,000
Subtotal	$ 29,969,000	$ 3,868,000	$ 818,000	$ 34,655,000
Drugs – Pre 65				
Actives	$ 1,483,000	$ 815,000	$ 185,000	$ 2,483,000
Retirees	3,461,000	598,000	186,000	4,245,000
Subtotal	$ 4,944,000	$ 1,413,000	$ 371,000	$ 6,728,000
Drugs – Post 65				
Actives	$ 12,887,000	$ 1,389,000	$ 413,000	$ 14,689,000
Retirees	25,665,000	3,583,000	635,000	29,883,000
Subtotal	$ 38,552,000	$ 4,972,000	$ 1,048,000	$ 44,572,000
Administrative Expenses				
Actives	$ 4,355,000	$ 770,000	$ 211,000	$ 5,316,000
Retirees	10,331,000	1,653,000	319,000	12,303,000
Subtotal	$ 14,666,000	$ 2,423 ,000	$ 530,000	$ 17,619,000
Total				
Actives	$ 34,502,000	$ 7,227,000	$ 1,848,000	$ 43,577,000
Retirees	72,557,000	10,899,000	2,344,000	85,800,000
Total AAL	$ 107,059,000	$ 18,126,000	$ 4,192,000	$ 129,377,000
AAL Per Participant				
Actives	$ 93,000	$ 103,000	$ 109,000	$ 95,000
Retirees	$ 130,000	$ 142,000	$ 180,000	$ 132,000
Normal Cost				
Medical – Pre 65	$ 282,000	$ 192,000	$ 60,000	$ 534,000
Medical – Post 65	340,000	31,000	11,000	382,000
Drugs – Pre 65	73,000	49,000	15,000	137,000
Drugs – Post 65	436,000	40,000	13,000	489,000
Administrative Expenses	158,000	35,000	12,000	205,000
Total Normal Cost	$ 1,289,000	$ 347,000	$ 111,000	$ 1,747,000
Normal Cost Per Active	$ 3,000	$ 5,000	$ 7,000	$ 4,000

3. Annual Required Contributions

The ARC amounts shown on this page are determined by amortizing future costs as a level percent of payroll. The level percent of payroll method results in lower current costs compared to level amount amortization, but increases future costs as County payroll increases over time.

The ARC amounts shown assume payments are made at the end of the year. The assets are allocated proportionately to the actuarial accrued liability for illustration purposes.

Aggregate Cost Method

The Aggregate method is one of the more basic and easy to understand cost methods. Under this method, the ARC is the amount required to fund the unfunded PVB over the future working lifetime of active participants.

	General	Safety	Probation	Total
PVB	$ 115,737,000	$ 20,392,000	$ 4,795,000	$ 140,924,000
Assets	0	0	0	0
Unfunded PVB	$ 115,737,000	$ 20,392,000	$ 4,795,000	$ 140,924,000
ARC	$ 14,246,000	$ 2,510,000	$ 590,000	$ 17,346,000
Percent of Payroll	71.8%	55.0%	68.4%	68.7%

Entry Age Normal Cost Method

The Entry Age Normal method is used to develop the Mendocino County Employees' Retirement Association pension costs. Under this method, the ARC is equal to the Normal Cost plus the amortization of the unfunded AAL over the selected period.

	General	Safety	Probation	Total
Accrued Liability	$ 107,059,000	$ 18,126,000	$ 4,192,000	$ 129,377,000
Assets (allocated by AAL)	0	0	0	0
Unfunded Accrued Liability	$ 107,059,000	$ 18,126,000	$ 4,192,000	$ 129,377,000
Normal cost, plus interest	$ 1,353,000	$ 365,000	$ 117,000	$ 1,835,000
Percent of payroll	6.8%	8.0%	13.6%	7.3%
ARC				
- 30 year amortization	$ 5,935,000	$ 1,141,000	$ 296,000	$ 7,372,000
Percent of Payroll	29.9%	25.0%	34.3%	29.2%
- 20 year amortization	$ 7,709,000	$ 1,441,000	$ 366,000	$ 9,516,000
Percent of Payroll	38.9%	31.6%	42.4%	37.7%
- 10 year amortization	$ 13,082,000	$ 2,351,000	$ 576,000	$ 16,009,000
Percent of Payroll	66.0%	51.5%	66.8%	63.4%

Note: 30 years is the longest period that GASB allows for amortizing unfunded liabilities.

4. Projected Benefit Payments

The following table shows the estimated projected net County benefit payments based on the current plan provisions, current plan participants, and the valuation assumptions used in this report. The payments would be equivalent to funding the liabilities on a pay-as-you-go basis.

Year Ending June 30	Distributions
2008	$ 4,713,000
2009	5,407,000
2010	6,013,000
2011	6,451,000
2012	6,849,000
2013	7,216,000
2014	7,523,000
2015	7,627,000
2016	7,811,000
2017	7,970,000
2018	8,213,000
2019	8,382,000
2020	8,578,000
2021	8,712,000
2022	8,969,000
2023	9,070,000
2024	9,082,000
2025	9,235,000
2026	9,372,000
2027	9,442,000
2028	9,457,000
2029	9,522,000
2030	9,545,000
2031	9,489,000
2032	9,377,000
2033	9,249,000
2034	9,049,000
2035	8,786,000
2036	8,567,000
2037	8,343,000

5. GASB Reporting and Disclosure Information

GASB 45 requires certain items to be disclosed in the footnotes to the County's financial statements, including the following:

- Plan description
  - Name of plan and identification of the entity that administers plan
  - Brief description of the types of benefits
- Funding policy
  - Required contribution rates of plan members
  - Required contribution rates of employer

In addition, the tables below show required supplementary information to be shown with three years of historical information in the County's financial statements.

Sample information is shown as if the County adopted GASB 45 for the current fiscal year, elected to use the entry age normal cost method with unfunded liabilities amortized over 30 years, and continues to fund on a pay-as-you-go basis.

Development of Net OPEB Obligation (NOO) and Annual OPEB Cost (000s omitted)

Fiscal Year	Annual Required Contributions	Actual Contribution	NOO End of Year	Interest on Net OPEB Obligation	Adjustment to the Annual Required Contribution	Annual OPEB Cost	Interest Rate	Salary Scale	Amortization Factor
07/08	$7,372	$4,713	$2,659	$0	$0	$7,372	5.0%	3.25%	23.4

Schedule of Funding Progress (000s omitted)

Type of Valuation	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
Actual	07/01/2007	$0	$129,377	$129,377	0.0%	$25,261	512.2%	5.0%	3.25%

Schedule of Employer Contributions (000s omitted)

Fiscal Year Ending:	Annual OPEB Costs	Actual Contribution	Percentage Contribution	Net OPEB Obligation
6/30/2008	$7,372	$4,713	64%	$2,659

6. Participant Information

This exhibit contains participant demographic information.

Participant Statistics

	General	Safety	Probation	Total
Actives				
Number of actives	372	70	17	459
Average age of actives	51.7	44.2	48.4	50.4
Average past service	15.8	15.3	14.4	15.7
Average future service				8.8
Covered payroll (in millions), FYE 6/30/08	$19.8	$4.6	$0.9	$25.3
Retirees				
Number of retirees	559	77	13	649
Number of retiree spouses	44	2	17	63
Average age of retirees	67.7	63.4	57.2	67.0

Active Employee Age/Service Distribution

The following table displays the age and service for active employees eligible for benefits.

	Years of Eligible Service							
Age	<10	10-14	15-19	20-24	25-29	30-34	>=35	Total
25-29		3						3
30-34	9	8						17
35-39	4	27	6					37
40-44	4	31	13	5				53
45-49	8	32	23	20	3			86
50-54	6	35	21	15	11	5		93
55-59	5	51	17	13	12	9	4	111
60-64	7	21	12	9				49
>65		5	2		2	1		10
Total	43	213	94	62	28	15	4	459

Distribution of Retired Participants by Medical Coverage

	General	Safety	Probation	Total
Employee only	515	60	11	586
Employee + Spouse	43	17	2	62
Employee + Child	1			1
Total	559	77	13	649

7. Summary of Principal Plan Provisions

The following plan provisions are the basis for the calculations in this actuarial valuation.

1. Benefit Eligibility

Employees hired before September 1998 who retire from active employment with Mendocino County and meet the requirements below are eligible for lifetime coverage under the Mendocino County Employees Retirement Health Plan.

An employee is eligible for retiree coverage for life if he or she:

1. has 10 or more years of service with Mendocino County;
2. is at least age 50 on the date of retirement; and
3. makes the required contributions (if any) for retiree coverage as required by the Plan Administrator.

2. Benefits Provided

Under the plan, the County pays for prescription drugs and for medical benefits, such as those listed below, subject to different deductibles, copays, and limits[i]:

- Hospital Services
- Skilled Nursing Facility
- Home Health Care
- Private Duty Nursing
- Hospice Care
- X-Ray
- Radiation / Chemotherapy
- Acupuncture
- Spinal Manipulation / Chiropractic Service
- Ambulance Service
- Therapy (Speech, Physical, and Occupational)
- Durable Medical Equipment
- Prosthetics / Orthotic
- Christian science
- Mental Disorders and Substance Abuse
- Preventive Care
- Organ and Tissue Transplant
- Pregnancy

3. Dependent Coverage

A Retiree's Spouse and/or Dependent children may be eligible for coverage if they have been covered by the Mendocino County Employee Health Insurance Plan for six (6) months or more prior to the retirement of the Employee.

The dependent's coverage stops when the retiree's coverage under the Plan terminates for any reason including death.

4. Retiree Contributions

Retirees have no required contributions for their own coverage. A contribution of $510.00 per month is required for dependent coverage.

[i] Please refer to the Plan Document for Mendocino County Employees Retirement Health Plan for more details

8. Actuarial Assumptions

1. Actuarial Cost Method

The costs shown in the report were developed using two different funding methods:

Under the Aggregate cost method, the ARC equals an amortization of the unfunded present value of future benefits, based on the following:

- Period equal to the average future working lifetime of active participants
- Level percentage of future payroll amounts

The Entry Age Normal (EAN) cost method spreads plan costs for each participant from entry date (assuming the plan existed on the employee's hire date) to the expected retirement date. Under the EAN cost method, the plan's normal cost is developed as a level percentage of payroll spread over the participants' working lifetime. The AAL is the cumulative value, on the valuation date, of prior normal costs. For retirees, the AAL is the present value of all projected benefits.

The ARC under this method equals the normal cost plus the amortization of the unfunded AAL based on the following:

- Specified amortization period (10, 20, or 30 years are shown)
- Level percentage of future payroll amounts

The Plan costs are derived by making certain specific assumptions as to the rates of interest, mortality, turnover, and the like, which are assumed to hold for many years into the future. Actual experience may differ somewhat from the assumptions and the effect of such differences is spread over all periods. Due to these differences, the costs determined by the valuation must be regarded as estimates of the true Plan costs.

2. Discount Rate

5.0% - This is based on the assumption that benefits will be paid from general County assets, or paid from a separate trust where assets are invested relatively conservatively.

7.75% was used for the illustration of results assuming the County pre-funds benefits in a trust with a mix of assets classes.

3. Payroll Increases

3.25% - This is the annual rate at which total payroll ($25.3 million) is expected to increase and is used in the cost method used to calculate the ARC as a level percent of payroll.

8. Actuarial Assumptions (cont.)

4. Mortality

The mortality assumptions are the same as those used in the actuarial valuation of the Mendocino County Employees' Retirement Association.

Pre-retirement Mortality

General Members:	1994 Group Annuity Mortality Table for Males, set back 3 years
Safety Members:	1994 Group Annuity Mortality Table for Males, with no set back
Probation Members:	1994 Group Annuity Mortality Table for Males, with no set back

Post-retirement Mortality

General Members:	1994 Group Annuity Mortality Table for Males or Females, with no set back
Safety Members:	1994 Group Annuity Mortality Table for Males, with no set back
Probation Members:	1994 Group Annuity Mortality Table for Males, with no set back

5. Turnover

The turnover assumptions are the same as those used in the actuarial valuation of the Mendocino County Employees' Retirement Association.

Rates of withdrawal are based on age. Sample rates are as follow:

Age	General Members Males	General Members Females	Safety Members	Probation Members
25	0.22032	0.16800	0.14850	0.14850
30	0.19920	0.14844	0.11925	0.11925
35	0.14868	0.13232	0.09075	0.09075
40	0.12816	0.11232	0.07050	0.07050
45	0.08940	0.10104	0.04350	0.04350
50	0.07020	0.06972	0.01200	0.01200

8. Actuarial Assumptions (cont.)

6. Retirement Age

The retirement assumptions are the same as those used in the actuarial valuation of the Mendocino County Employees' Retirement Association.

Rates for eligible participants are as follow:

Age	General Members Males	General Members Females	Safety Members	Probation Members
45	-	-	0.0050	-
46	-	-	0.0058	-
47	-	-	0.0066	-
48	-	-	0.0076	-
49	-	-	0.0088	-
50	0.0150	0.0300	0.0460	0.0400
51	0.0150	0.0300	0.0460	0.0400
52	0.0150	0.0300	0.0460	0.0400
53	0.0150	0.0300	0.0920	0.0800
54	0.0150	0.0300	0.1035	0.0900
55	0.0450	0.0300	0.1263	0.1250
56	0.0300	0.0300	0.1500	0.1500
57	0.0300	0.0300	0.2000	0.2000
58	0.0300	0.0600	0.2500	0.2500
59	0.0375	0.0600	0.3750	0.3750
60	0.0750	0.0600	1.0000	1.0000
61	0.1950	0.1000	-	-
62	0.2250	0.1500	-	-
63	0.1125	0.1500	-	-
64	0.1875	0.1500	-	-
65	0.5250	0.5000	-	-
66	0.6000	0.6000	-	-
67	0.6375	0.6000	-	-
68	0.6750	0.9000	-	-
69	0.7125	0.9500	-	-
70	1.0000	1.0000	-	-

8. Actuarial Assumptions (cont.)

7. Annual Medical Inflation ("Trend")

The medical trend rate represents the long-term expected growth of medical benefits paid by the plan, due to non-age-related factors such as general medical inflation, utilization, new technology, and the like. The following table sets forth the trend assumptions used for the valuation:

Year	Medical	Drugs
2007	11.0%	10.0%
2008	10.0	9.0
2009	9.0	8.0
2010	8.0	7.0
2011	7.0	6.5
2012	6.5	6.0
2013	6.0	5.5
2014	5.5	5.0
2015+	5.0	5.0

8. 2007-2008 Base Year Claims

Medical claims are developed based on separate pre-65 and post-65 claims data. These claims were trended to July 1, 2007 and spread by age using varying morbidity rates.

Sample annual medical claims per individual are assumed as follows:

Age	Medical	Drugs
50	$ 4,535	$ 1,229
55	5,335	1,446
60	6,367	1,726
65	1,414	1,914
70	1,639	2,219
75	1,854	2,510
80	2,047	2,770
85	2,151	2,912

9. Administrative Expenses

Administrative expenses are assumed to equal $100 per member per month and are assumed to increase 3.0% per annum.

10. Retiree Contributions

There are no retiree contributions except for dependent coverage.

8. Actuarial Assumptions (cont.)

11. Participants Valued

Only current active employees hired before September 1998 and retired participants are valued.

12. Plan Participation

100% of future eligible retirees are assumed to elect coverage.

13. Spouse Assumption

Current retirees are assumed to continue coverage based on their current elections. For future retirees, 10% are assumed to elect employee plus one coverage.

Actual spouse date of birth is used where available. Otherwise, females are assumed to 3 years younger than their male spouses.

9. Glossary

Actuarial Accrued Liability (AAL)

As determined by a particular Actuarial Cost Method, the portion of the Actuarial Present Value of plan benefits and expenses which is attributable to past service, and thus not provided for by future Normal Costs.

Actuarial Assumptions

Assumptions as to the occurrence of future events affecting benefit costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and employer provided benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; and other relevant items. The Actuarial Assumptions are used in connection with the Actuarial Cost Method to allocate plan costs over the working lifetime of plan participants.

Actuarial Cost Method

A procedure for determining the Actuarial Present Value of plan benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods (e.g., past service, future service), usually in the form of a Normal Cost and an Actuarial Accrued Liability.

Actuarial Experience Gain or Loss

A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation Dates, as determined in accordance with a particular Actuarial Cost Method.

Actuarial Present Value

The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

a. adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, Social Security, marital status, etc.).
b. multiplied by the probability of the occurrence of an event (such as survival, death disability, termination of employment, etc.) on which the payment is conditioned, and
c. discounted according to an assumed rate (or rates) of return to reflect the time value of money.

9. Glossary (cont.)

Actuarial Present Value of Total Projected Benefits or Present Value of Benefits (PVB)

Total projected benefits include all benefits estimated to be payable to plan members (retirees and beneficiaries, terminated employees entitled to benefits but not yet receiving them, and current active members) as a result of their service through the valuation date and their expected future service. The actuarial present value of total projected benefits as of the valuation date is the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Expressed another way, it is the amount that would have to be invested on the valuation date so that the amount invested plus investment earnings will provide sufficient assets to pay total projected benefits when due.

Actuarial Valuation

The determination, as of a Valuation Date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a benefit plan.

Actuarial Valuation Date

The date as of which an actuarial valuation is performed.

Actuarial Value of Assets

The value of cash, investments, and other property belonging to a benefit plan, as used by the actuary for the purpose of an Actuarial Valuation.

Agent Multiple-Employer Plan

An aggregation of single-employer plans, with pooled administrative and investment functions. Separate accounts are maintained for each employer so that the employer's contributions provide benefits only for the employees of that employer. A separate actuarial valuation is performed for each individual employer's plan to determine the employer's periodic contribution rate and other information for the individual plan, based on the benefit formula selected by the employer and the individual plan's proportionate share of the pooled assets. The results of the individual valuations are aggregated at the administrative level.

Aggregate Actuarial Cost Method

A method under which the excess of the Actuarial Present Value of Projected Benefits of the group included in an Actuarial Valuation over the Actuarial Value of Assets is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. That portion of the Actuarial Present Value allocated to a valuation year is called the Normal Cost. The Actuarial Accrued Liability is equal to the Actuarial Value of Assets.

9. Glossary (cont.)

Amortization (of Unfunded Actuarial Accrued Liability)

The portion of benefit plan costs or contributions which is designed to pay off principal and interest on the Unfunded Actuarial Accrued Liability.

Annual OPEB Cost (AOC)

An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.

Annual Required Contributions of the Employer (ARC)

The employer's periodic required contributions to a Defined Benefit OPEB Plan, which is the basis for determining an employer's Annual OPEB Cost. For a Cost Sharing Multiple-Employer Plan, the Contractually Required Contributions should be used to determine an employer's Annual OPEB Cost.

Contractually Required Contributions (CRC)

The contributions assessed by a Cost Sharing Multiple-Employer Plan to the participating employer for a period, without regard for the method used to determine the amounts.

Cost Sharing Multiple-Employer Plan

A single plan with pooling (cost-sharing) arrangements for the participating employers. All risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the employers. A single actuarial valuation covers all plan members, and the same contribution rate(s) applies for each employer.

Covered Group

Plan members included in an actuarial valuation.

Deferred Inactives

Former employees, not yet receiving retirement benefits, who are eligible for plan benefits in the future.

Defined Benefit OPEB Plan

An OPEB plan having terms that specify the benefits to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based on one or more factors such as age, years of service, and compensation), or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums).

9. Glossary (cont.)

Discount Rate (Investment Return Assumption)

The rate used to adjust a series of future payments to determine the present value by reflecting the time value of money.

Employer Contributions

Contributions made in relation to the annual required contributions of the employer (ARC). An employer has made a contribution in relation to the ARC if the employer has (a) made payments of benefits directly to or on behalf of a retiree or beneficiary, (b) made premium payments to an insurer, or (c) irrevocably transferred assets to a trust, or equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer(s) of plan administrator. Employer contributions generally do not necessarily equate to benefits paid.

Entry Age Normal Actuarial Cost Method

A method under which the Actuarial Present Value of the Projected Benefits of each individual included in an Actuarial Valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost. The portion of this Actuarial Present Value not provided for at a valuation date by the Actuarial Present Value of future Normal Costs is called the Actuarial Accrued Liability.

Funded Ratio

The actuarial value of assets expressed as a percentage of the Actuarial Accrued Liability.

Funding Excess

The excess of the Actuarial Value of Assets over the Actuarial Accrued Liability.

Funding Policy

The program for the amounts and timing of contributions to be made by plan members, employer(s), and other contributing entities to provide the benefits specified by an OPEB plan.

Healthcare Cost Trend Rate

The rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

9. Glossary (cont.)

Implicit Rate Subsidy

The differential between utilizing a blend of active and non-Medicare retiree experience for cost of benefits, and utilizing solely the expected retiree experience. Blending a lower cost active cohort with retirees results in an implicit rate subsidy for the retirees of the entire group.

Inactives

Certain former employees with a minimum amount of years of creditable service who have benefits payable from the retirement system.

Level Percentage of Projected Payroll Amortization Method

Amortization payments are calculated so that they are a constant percentage of the projected payroll of active plan members over a given number of years. The dollar amount of the payments generally will increase over time as payroll increases (e.g., due to inflation); in dollars adjusted for inflation, the payments can be expected to remain level.

Market-Related Value of Plan Assets

A term used with reference to the actuarial value of assets. A market related value may be fair value, market value (or estimated market value), or a calculated value that recognizes changes in fair or market value over a period of, for example, three to five years.

Net OPEB Obligation (NOO)

The cumulative difference since the effective date of this Statement between Annual OPEB Cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt.

Normal Cost

The portion of the Actuarial Present Value of plan benefits and expenses that is allocated to a valuation year by the Actuarial Cost Method.

OPEB Assets

The amount recognized by an employer for contributions to an OPEB plan greater than OPEB expense.

OPEB Expenditures

The amount recognized by an employer in each accounting period for contributions to an OPEB plan on the modified accrual basis of accounting.

9. Glossary (cont.)

OPEB Expense

The amount recognized by an employer in each accounting period for contributions to an OPEB plan on the accrual basis of accounting.

OPEB Liabilities

The amount recognized by an employer for contributions to an OPEB plan less than OPEB expense/expenditures.

Other Postemployment Benefits (OPEB)

Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, excluding benefits defined as termination offers and benefits.

Pay-As-You-Go

A method of financing a plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

Plan Assets

Resources, usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust, or equivalent arrangement, in which (a) employer contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, (c) assets are legally protected from creditors of the employers or plan administrator, for the payment of benefits in accordance with the terms of the plan.

Plan Members

The individuals covered by the terms of an OPEB plan. The plan membership generally includes employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits.

Postemployment

The period between termination of employment and retirement as well as the period after retirement.

Postemployment Healthcare Benefits

Medical, dental, vision, and other health-related benefits provided to terminated or retired employees and their dependents and beneficiaries.

9. Glossary (cont.)

Postretirement Benefit Increase

An increase in the benefits of retirees or beneficiaries granted to compensate for the effects of inflation (cost-of-living adjustment) or for other reasons. Ad hoc increases may be granted periodically by a decision of the board of trustees, legislature, or other authoritative body; both the decision to grant an increase and the amount of the increase are discretionary. Automatic increases are periodic increases specified in the terms of the plan; they are nondiscretionary except to the extent that the plan terms can be changed.

Projected Benefits

Those plan benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits. That portion of an individual's Projected Benefit allocated to service to date, determined in accordance with the terms of a plan and based on future compensation as projected to retirement, is called the Credited Projected Benefit.

Projected Unit Credit Actuarial Cost Method

A method under which the benefits (projected or unprojected) of each individual included in an Actuarial Valuation are allocated by a consistent formula to valuation years. The Actuarial Present Value of benefits allocated to a valuation year is called the Normal Cost. The Actuarial Present Value of benefits allocated to all periods prior to a valuation year is called the Actuarial Accrued Liability.

Under this method, the Actuarial Gains (or Losses), as they occur, generally reduce (or increase) the Unfunded Actuarial Accrued Liability.

Under this method, benefits are projected to all future points in time under the terms of the Plan and actuarial assumptions (for example, health trends). Retirees are considered to be fully attributed in their benefits. For actives, attribution is to expected retirement age; thus, benefits at each future point in time are allocated to past service based on a proration of service-to-date over total projected service.

Required Supplementary Information (RSI)

Schedules, statistical data, and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity.

Single-Employer Plan

A plan that covers the current and former employees, including beneficiaries, of only one employer.

9. Glossary (cont.)

Sponsor

The entity that established the plan. The sponsor generally is the employer or one of the employers that participate in the plan to provide benefits for their employees and employees of other employers.

Substantive Plan

The terms of an OPEB plan as understood by the employer(s) and plan members.

Transition Year

The fiscal year in which this Statement is first implemented.

Unfunded Actuarial Accrued Liability (Unfunded Actuarial Liability)

The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.