

**LOS ANGELES COMMUNITY COLLEGE DISTRICT**

Actuarial Valuation as of July 1, 2005

For the District's Retiree Health Insurance Program

In Compliance with GASB Statements 43 & 45

Prepared By:

**DEMSEY, FILLIGER & ASSOCIATES, LLC**

October, 2005

**DRAFT**



October 15, 2005

Mr. Kenneth Takeda  
Director of Business Services  
Los Angeles Community College District  
Business Services Division  
770 Wilshire Boulevard, 3<sup>rd</sup> Floor  
Los Angeles, CA 90017-3856

Re: Los Angeles Community College District ("District") GASB 45 Actuarial Valuation

Dear Mr. Takeda:

This report sets forth the results of our actuarial valuation of the District's retiree health insurance program under the applicable GASB accounting standards.

The District provides postretirement medical, prescription drug, dental, and vision health benefits on behalf of its eligible retirees, dependents and surviving spouses. As of the valuation date, there were 3,159 retirees currently receiving District-paid benefits, 54 vested pre-2001 police personnel, and 3,479 active employees who may become eligible for retiree benefits in the future.

The Government Accounting Standards Board (GASB) has recently issued its final accrual accounting standards for retiree healthcare and other postemployment benefits, GASB 43 and GASB 45. GASB 43/45 will require public agencies such as the District to perform periodic actuarial valuations to measure and disclose their retiree healthcare liabilities for the financial statements of both the employer and the trust, if any, set aside to pre-fund these benefits. The District requires an estimate of the liabilities of its retiree healthcare plan under the new standards, as well as recommended contribution amounts to pre-fund the plan.

We have set forth the results of our valuation in this report. We appreciate the opportunity to be of service to the District, and are available to answer any questions you may have concerning any information contained herein.

Sincerely,  
DEMSEY, FILLIGER & ASSOCIATES

**DRAFT**

T. Louis Filliger, FSA, EA, MAAA  
Partner & Actuary

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## **Executive Summary**

Los Angeles Community College District (the “District”) provides postretirement medical, prescription drug, dental and vision benefits on behalf of its eligible retirees and their dependents, as well as surviving spouses of deceased retirees. The Government Accounting Standards Board (GASB) has recently issued its final accrual accounting standards for retiree healthcare and other postemployment benefits, GASB 43 and GASB 45. GASB 43/45 will require public employers to perform periodic actuarial valuations to measure and disclose their retiree healthcare liabilities for the financial statements of both the employer and the trust, if any, set aside to pre-fund these benefits.

In July, 2005, the District selected Demsey, Filliger and Associates (DF&A), an independent actuarial consulting specializing in group health and welfare benefits, to perform an actuarial valuation of its postretirement healthcare plans. The purpose of this actuarial valuation is to assist the District in preparing for upcoming financial disclosure requirements for GASB statements 43 and 45, scheduled to take effect as of July 1, 2006 and 2007, respectively. Some of the highlights of our findings are as follows:

- The postretirement benefit obligations and annual expense under the accrual accounting standards of GASB 45, using a valuation date of July 1, 2005, are as follows:

- Actuarial Present Value of Future Benefits*	\$721.2 million
- Actuarial Accrued Liability ("AL")*	\$623.2 million
- Annual Accrual Expense - Year One ("ARC")*	\$55.0 million
- We projected the District's annual pay-as-you-go retiree costs over the next 50 years.
- We suggested several alternative contribution patterns for pre-funding the District's future retiree benefit obligations. We recommend that the District establish an irrevocable trust to pre-fund future retiree benefits. Reasons for pre-funding include enhanced benefit security for both retirees and active District employees, as well as the actual and perceived financial soundness of the District in the medium to long term.
- The District is not required to immediately recognize the full AL of \$623.2 million. Instead, the liability will be subject to deferred recognition under the rules of GASB 45, initially entering the District's financial statements at a rate of approximately \$29 million per year, less any pre-funding that the District elects to make.

The balance of this report describes our findings in more detail. We appreciate the opportunity to be of assistance to District and are available to answer any questions about this report.

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\*Definitions of these terms can be found in the “Glossary” section of the report.

## **Financial Results**

We have determined that the amount of actuarial liability for current and future retirees, as of July 1, 2005, is \$721,199,735. This represents the present value of all benefits expected to be paid by the District for its current and future retirees. If the District were to place this amount in a fund earning interest at the rate of 6.0% per year, and all other actuarial assumptions were exactly met, the fund would have exactly enough to pay all expected benefits.

This includes benefits for 3,159 retirees and survivors in pay status, 54 vested deferred police personnel covered under the 2001 agreements with LACERA, and 3,479 active employees expected to retire and receive benefits in the future. It does not consider employees not yet hired as of the valuation date.

If the above amount is apportioned into past service and future service components under the projected unit credit cost method, the past service liability (or Accrued Liability) component is \$623,247,741 as of July 1, 2005. This represents the present value of all benefits earned to date assuming that an employee earns retiree healthcare benefits ratably over his or her career. The \$623,247,741 is comprised of liabilities of \$289,568,054 for active employees and \$333,679,687 for retirees and deferred police benefits. Because the District does not have a fund set aside for retiree benefits, the Unfunded Accrued Liability (UAL, equal to the AL less assets) is also \$623,247,741.

The District is not yet required to adopt accrual accounting standards for retiree healthcare benefits, but this will happen in the near future. The new GASB standard, GASB 45, published in June, 2004, will have an effective date of July 1, 2007 for the District. GASB 43, pertaining to the financial statements of the retiree fund itself, would take effect one year earlier; however, the District has no fund at present so GASB 43 is not yet applicable. Both standards encourage early compliance.

We have determined that the annual expense for the fiscal year 2005-6 under GASB 45, if adopted early, would be \$54,989,936. This amount is referred to as the "Annual Required Contributions", or "ARC", under GASB 45. The \$54,989,936 is comprised of the present value of benefits accruing in the current year (called the "Service Cost") and a 30-year amortization of the UAL. Because the District is expected to pay \$25,969,881 for the 2005-6 fiscal year in healthcare costs on behalf of its retirees, the change to accrual accounting would represent an increase in annual expense of \$29,020,055.

The above numbers are summarized in the table on the following page. The valuation covered a total of 3,213 retirees and deferred police personnel, and 3,479 active employees.

**Estimated Annual Liabilities and Expense Under  
GASB 45 Accrual Accounting Standard  
Projected Unit Credit Cost Method**

Item	Fiscal 2005-6
Present Value of Future Benefits (PVFB):	
Active	\$387,520,048
Retired and Deferred	<u>333,679,687</u>
<b>Total: PVFB</b>	<b>\$721,199,735</b>
Accrued Liability (AL)	
Actives	\$289,568,054
Retired and Deferred	<u>333,679,687</u>
<b>Total: AL</b>	<b>\$623,247,741</b>
Assets	<u>(0)</u>
<b>Total: Unfunded AL</b>	<b>\$623,247,741</b>
Annual Required Contributions (ARC)	
Service Cost At Year-End	\$9,711,666
30-year Amortization of Unfunded AL	<u>45,278,270</u>
<b>Total: ARC</b>	<b>\$54,989,936</b>

This information is being presented to help the District to understand the long-term nature of these liabilities and the expected impact of the numbers at some point in the future. We wish to emphasize that it is not necessary to reflect any of these numbers in the District's financial statements at present.

## **GASB 43 and GASB 45 Compliance Issues**

There are two considerations regarding GASB 43 and GASB 45 that we would like to mention at this point:

(1) Both statements specify that in order for a retiree fund to be counted as "assets" for purposes of the statements, the fund must be set aside in a separate, irrevocable trust, that may not be used for any purpose besides the payment of plan benefits to retirees, and is beyond the reach of creditors of both the employer and/or the plan administrator, if any. For example, an earmarked reserve within the General Fund is not expected to meet this definition of "assets". We recommend that the District consider taking steps to establish a retiree fund that meets the GASB requirements, as soon as practicable.

(2) There is considerable confusion among public agencies over what GASB 45 does and does not require: specifically, many agencies initially believed that GASB 45 required pre-funding of retiree health insurance programs. This is not the case - the standard applies only to the expense to be charged to the agencies' income statements. Contributing to the confusion is the terminology used in both GASB 43 and GASB 45 for the annual expense - it's called the "Annual Required Contributions" even though it's neither required nor (necessarily) contributed.

We do not believe that it is necessary or even desirable for an agency to contribute the full ARC on a cash basis each year. In some cases the recommended funding contribution will be higher than the ARC, in other cases lower. The reasons for this are a bit complex and beyond the scope of this report, but the important thing to understand is that GASB 45 pertains to the income statement, and funding pertains to cash flow, and there is no need for the two to be directly linked, at least for now.

## **Funding Methodologies**

There are multiple ways to approach the funding of a retiree health insurance program. In the *Financial Results* section, we determined the annual expense for all District paid benefits.

The expense is an orderly methodology, developed by the GASB, to account for a retirement plan. This amount will fluctuate from year to year based on the asset performance and as the population matures. It will eventually reach zero when the last eligible retiree dies. The GASB 45 expense has no direct relation to amounts the District may set aside to pre-fund healthcare benefits.

The following table provides the District with three alternative scenarios for funding (as contrasted with expensing) retiree healthcare benefits. The scenarios all assume the District earns 5.0% on its assets and contributions and benefits are paid mid-year. The scenarios are:

1. A level contribution amount for the next 20 years.
2. A level percentage of the unfunded accrued liability (UAL).
3. A level percent of payroll for the next 20 years. We assume payroll increases by 3% per year.

These contribution schedules are provided to give the District a sense of the various alternatives available to it to pre-fund its retiree healthcare obligation. The three contribution schedules only provide a means to spread the costs in different ways.

By comparing the scenarios, you can see the effect that pre-funding has on the required District contribution pattern. Because of expected investment earnings on fund assets, the earlier contributions are made, the less the District will have to contribute in the long run. Of course, the advantages of pre-funding will have to be weighed against alternative uses of the contribution amounts.

The table on the following page shows the required annual outlay under the pay-as-you-go method and each of the above scenarios. The three contribution scenarios include the “pay-as-you-go” costs; therefore, the amount of pre-funding is the excess over the “pay-as-you-go” amount. Amounts have been derived on a closed group basis, meaning that additional funding will be required for future employees.

**Los Angeles Community College District**  
**Sample Contribution Schedule (Closed Group)**

<b>FYB 7/1/20xx</b>	<b>Pay-as-you-go</b>	<b>Level Contribution</b>	<b>Level % of Unfunded AL</b>	<b>Level % of Payroll</b>
2005	\$25,969,881	\$65,460,000	\$56,446,082	\$51,099,000
2006	28,921,655	65,460,000	55,340,904	52,631,970
2007	31,507,093	65,460,000	54,328,776	54,210,929
2008	33,892,132	65,460,000	53,394,546	55,837,257
2009	36,108,400	65,460,000	52,526,490	57,512,375
2010	38,185,158	65,460,000	51,714,229	59,237,746
2011	39,860,247	65,460,000	50,948,524	61,014,878
2012	41,215,022	65,460,000	50,218,859	62,845,325
2013	42,519,060	65,460,000	49,517,075	64,730,684
2014	43,819,415	65,460,000	48,838,115	66,672,605
2015	44,973,029	65,460,000	48,177,476	68,672,783
2016	46,339,285	65,460,000	47,530,055	70,732,967
2017	47,572,138	65,460,000	46,892,880	72,854,956
2018	48,641,557	65,460,000	46,261,004	75,040,604
2019	49,738,839	65,460,000	45,629,965	77,291,822
2020	50,745,086	65,460,000	44,996,358	79,610,577
2021	51,707,736	65,460,000	44,356,526	81,998,894
2022	52,782,118	65,460,000	43,707,205	84,458,861
2023	53,679,692	65,460,000	43,045,267	86,992,627
2024	54,566,625	65,460,000	42,056,278	89,602,406
2025	55,424,329	0	40,873,098	0
2026	56,215,808	0	39,732,456	0
2027	56,682,651	0	38,631,113	0
2028	57,100,890	0	37,566,061	0
2029	57,438,695	0	36,534,531	0
2030	57,602,982	0	35,533,867	0
2031	57,740,633	0	34,561,574	0
2032	57,609,982	0	33,615,296	0
2033	57,242,850	0	32,692,845	0
2034	56,774,137	0	31,792,297	0
2035	56,029,888	0	30,911,927	0
2040	50,647,113	0	26,764,806	0
2045	42,023,922	0	<i>Funding reverts to</i>	0
2050	32,125,325	0	<i>“Pay-as-you-go”</i>	0
2055	22,537,693	0	<i>After year 2050</i>	0

## **Summary of Actuarial Assumptions**

In order to perform the valuation, it is necessary for the actuary to make certain assumptions regarding such items as rates of employee turnover, retirement, and mortality, as well as economic assumptions regarding healthcare trend and interest rates. Our assumptions are based on a standard set of assumptions we have used for similar studies, modified as appropriate for the District. For example, turnover rates are taken from a standard actuarial table, T-5, which was chosen because it most closely matches expected District turnover experience.

The discount rate of 6.0% is based on our best estimate of expected long-term plan experience and is in accordance with our understanding of the guidelines for selection of these rates under GASB 45. The healthcare trend rates are based on our analysis of recent District experience and our general knowledge of the current healthcare environment.

We have assumed that the GASB 45 liability for current and future self-paid retirees, for example, those covered under California AB 528, is \$0. This in turn assumes that rates charged to the self-paid retirees are actuarially sufficient for that group on a stand-alone basis.

A complete description of the actuarial assumptions used in the valuation is set forth in the "Actuarial Assumptions" section later in the report.

## **Projection of Annual Pay-As-You-Go Costs**

As part of the valuation, we prepared a projection of the expected annual cost to the District to pay benefits on behalf of its retirees on a pay-as-you-go basis. The costs decrease and eventually reach zero because the valuation is performed on a closed group basis, assuming no new entrants. Projected pay-as-you-go expenses for selected future years are as follows:

<i>Year</i>	<i>Pay-as-you-go</i>
2005	\$25,969,881
2006	28,921,655
2007	31,507,093
2008	33,892,132
2009	36,108,400
2010	38,185,158
2015	44,973,029
2020	50,745,086
2025	55,424,329
2030	57,602,982
2035	56,029,888
2040	50,647,113
2045	42,023,922
2050	32,125,325

## **Certification & Description of Appendices**

The actuarial certification is contained in the “Actuarial Certification” section of the report. Once GASB 45 has become effective, the District will require an actuarial certification of its liabilities under GASB 45 at least biennially. We recommend interim valuations only if there are significant changes in plan provisions or demographics since the most recent valuation.

Following the actuarial certification, Appendices I and II break down the actuarial present values and cash flows, respectively, by the 9 bargaining groups with unrepresented employees /retirees as a tenth group. Appendix III shows benefits split by medical, dental, and vision versus retiree/survivor and spouse/dependent coverage. We would like to caution the District that cash flows become more variable and less predictable as the size of the employee subgroup decreases, so cash flows for the smaller groups should be taken as very rough estimates only.

We have enjoyed working with the District on this valuation, and are available to answer any questions you may have concerning any information contained herein.

Sincerely,  
DEMSEY, FILLIGER AND ASSOCIATES

T. Louis Filliger, FSA, EA, MAAA  
Partner & Actuary

## **Benefit Plan Provisions**

This valuation analyzes the health and welfare benefit plans of the District including medical, prescription drug, dental and vision benefits. For retirees under the age of 65, the medical/prescription drug coverages are the same as for active employees, but with separate, higher rates charged for under-age 65 retirees to reflect their greater actuarial cost. In 2005, rates for Medicare eligible (over-age 65) retirees are the same as early retirees for the Blue Cross PPO and HMO. The valuation is based on plan selection and rates in effect for the 2005 calendar year, adjusted to the valuation date for trend, and adjusted for the effects of Medicare reimbursements and the direct relationship of health care costs with increasing age.

Currently the District offers its employees a choice three medical/prescription drug options: Kaiser HMO, Blue Cross of California Prudent Buyer PPO (including a fee-for-service arrangement for out-of-area retirees), and Blue Cross CaliforniaCare HMO. There are three dental options offered - two through Blue Cross - the Prudent Buyer Choice Dental Net HMO and Dental PPO, and the Safeguard Dental Plan. Vision coverage is offered through VSP.

In addition, retirees who have attained the age of 65 and become eligible for Medicare Parts A and B, may, upon assigning benefits to Kaiser, join the Kaiser Senior Advantage HMO.

As of the publication of this report, the District has already made the decision to replace the Blue Cross medical/prescription drug options with similar Blue Shield options. We have examined the 2006 renewal rates from Blue Shield as well as the District's proposed contractual arrangement with Blue Shield, and have concluded that, in our opinion, the change will have little or no long-term impact on the retiree healthcare costs presented in this report.

### District Contributions

Employees may retire from the District after the later of age 55 and 5 years of service, if members of CalSTRS, or the later of age 50 and 5 years of service, if a member of CalPERS. Once these requirements have been satisfied and the retiree is receiving a pension from either STRS or PERS, the District will make a contribution towards the cost of retiree health coverage depending on the most recent date of hire of the employee, as follows:

Hired before 2/11/1992: 3 years of service in a qualifying position

Hired between 2/11/1992 and 6/30/1998: 7 years of service in a qualifying position

Hired on or after 7/1/1998: 10 years of service in a qualifying position.

**Benefit Plan Provisions (Continued)**

If the retiree was last hired before 7/1/1998, the District will contribute 100% of the cost of medical, dental and vision coverage for the retiree, spouse, dependent children up to a limiting age, and surviving spouses of eligible retirees.

If the retiree was last hired on or after 7/1/1998, the District contributes 50% of the above costs for retirees with at least 10 but less than 15 years of service, 75% for retirees with at least 15 but less than 20 years of service, and 100% for retirees with 20 or more years of service.

The following table summarizes the monthly retiree-only premiums for the health coverages offered to the District's retirees:

<i>Plan</i>	<i>Under Age 65</i>	<i>65 and Over</i>
Blue Cross PPO	\$411.20	\$411.20
Blue Cross HMO	257.17	257.17
Kaiser HMO	299.24	N/A
Kaiser Senior Advantage	N/A	279.43
Blue Cross PB Dental	45.42	45.42
Safeguard Dental	35.00	35.00
VSP	17.74	17.74

Benefits under Agreements between the District and LACCD Police Officers' Association and between the District and S.E.I.U. Local 347:

"If, after the merger date (Jan. 2001) a former District Police Officer, Police Aide, or Police Lieutenant who has at least 7 years of District service as of the merger date, retires, and if he/she has not served sufficient time with the Sheriffs to receive Los Angeles County's maximum contribution toward LACERA retiree medical benefits, and if the employee is not receiving retiree medical benefits from any other public agency, the District shall reimburse the (retiree) for the difference between the amount LACERA contributes for the employee's retiree benefits and the amount that LACERA would have contributed had the employee accumulated twenty-five years of service credit."

LACERA retiree health benefits are based on 100% of the premium of the base plan medical option for a given year plus dental/vision coverage. Benefits are reduced by 4% for each year of credited service less than 25; no benefits payable with less than 10 years of credited service.

## Valuation Data

### Summary of Census Data

The valuation was based on the census furnished to us by the District. Service-related calculations were based on an employee's "Benefit Eligibility Date" rather than "First Hire Date", per the District's instructions.

The following tables display the age and service distribution for (1) active employees in qualifying positions (those eligible for vesting of retiree healthcare benefits), (2) police covered under the 2001 agreements between the District and (i) the LACCD Police Officers Association and (ii) S.E.I.U. Local 347, and (3) retirees currently receiving District-paid healthcare benefits.

#### (1) Age/Service Distribution of Active Employees

<b><u>YOS →</u></b>	<i>0-4</i>	<i>5-9</i>	<i>10-14</i>	<i>15-19</i>	<i>20-24</i>	<i>25-29</i>	<i>30-34</i>	<i>35+</i>	<i>Total</i>
<b><u>AGE</u></b>									
20-24	24								24
25-29	101	17							118
30-34	116	64	13						193
35-39	137	113	53	37					340
40-44	106	132	66	68	11	1			384
45-49	118	135	79	61	29	27	2		451
50-54	91	116	89	94	56	91	30		567
55-59	77	113	78	86	65	148	75	15	657
60-64	34	50	35	56	39	101	82	21	418
65-69	8	23	18	23	18	48	40	17	195
70+	<u>3</u>	<u>5</u>	<u>14</u>	<u>24</u>	<u>10</u>	<u>31</u>	<u>24</u>	<u>21</u>	<u>132</u>
Total	815	768	445	449	228	447	253	74	3,479

Average Age:           50.44  
Average Service:       13.71

<b>Valuation Data (Continued)</b>
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(2) Age Distribution of former District Police Personnel with deferred benefits\*

<i>Age</i>	<i>Count</i>
35-39	9
40-44	18
45-49	8
50-54	3
55-59	9
60-64	3
65-69	<u>4</u>
Total	54
Average age	47.46

\*Includes two individuals receiving District reimbursements during 2005.

(3) Age Distribution of Eligible Retirees and Survivors in Benefit Status:

<i>Age</i>	<i>Retirees Without Dependents</i>	<i>Retirees With Dependents</i>	<i>Survivors</i>	<i>Total</i>
< 50	7	4	16	27
50-54	13	12	8	33
55-59	51	39	12	102
60-64	118	132	24	274
65-69	168	257	30	455
70-74	208	287	44	539
75-79	267	277	76	620
80-84	258	256	91	605
85-89	168	96	72	336
90-94	78	25	26	129
95+	<u>17</u>	<u>6</u>	<u>16</u>	<u>39</u>
Total	1,353	1,391	415	3,159
Average age	75.73	73.68	77.13	75.00

## Actuarial Assumptions

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

Valuation Date: July 1, 2005

Discount Rate: 6.0% per annum

Return on Assets: 5.0% per annum

Pre-retirement Turnover: According to Crocker-Sarason Table T-5 Less Mortality. Sample rates are as follows:

<i>Age</i>	<i>Turnover (%)</i>
25	7.7%
30	7.2
35	6.3
40	5.2
45	4.0
50	2.6
55	0.9

Pre-retirement Mortality: 1994 Group Annuity Mortality, Male and Female tables. Sample deaths per 1,000 employees are as follows:

<i>Age</i>	<i>Males</i>	<i>Females</i>
25	0.71	0.31
30	0.86	0.38
35	0.92	0.51
40	1.15	0.76
45	1.70	1.05
50	2.77	1.54
55	4.76	2.47
60	8.58	4.77

Post-retirement Mortality: 1994 Group Annuity Mortality, Male and Female tables. Sample deaths per 1,000 employees are as follows:

<i>Age</i>	<i>Males</i>	<i>Females</i>
65	15.63	9.29
70	25.52	14.73
75	40.01	24.39
80	66.70	42.36
85	104.56	72.84
90	164.44	125.02

**Actuarial Assumptions - (Continued)**

Retirement Rates:

<i>Age</i>	<i>Percent Retiring*</i>
50-54	2.0%
55-59	5.0
60-61	12.5
62-64	18.0
65-66	25.0
67-69	20.0
70+	100.0

\* Of those having met eligibility to receive District-paid benefits. The percentage refers to the probability that an active employee who has reached the stated age will retire within the following year.

Trend Rate:

The following healthcare trend rates were assumed:

<i>Year</i>	<i>Medical/Rx</i>	<i>Dental</i>	<i>Vision</i>
2005	12.0%	4.0%	4.0%
2006	10.0	4.0	4.0
2007	9.0	4.0	4.0
2008	8.0	4.0	4.0
2009	7.0	4.0	4.0
2010	6.0	4.0	4.0
2011+	5.0	4.0	4.0

Annual Cost per Retiree/Survivor as of July 1, 2005:

<i>Age</i>	<i>Medical/Rx</i>	<i>Dental</i>	<i>Vision</i>	<i>Total</i>
50	\$6,008	\$545	\$212	\$6,765
55	6,964	545	212	7,721
60	8,074	545	212	8,831
65	3,259	545	212	4,016
70	3,598	545	212	4,355
75	3,973	545	212	4,730
80	4,386	545	212	5,143
85	4,843	545	212	5,600

## Actuarial Assumptions - (Continued)

### Cost for Spousal and Dependent Coverage:

45% of future retirees were assumed to have covered spouses who were not separately entitled to District-paid benefits based on their own period of service with the District. Actual spousal data was used for current retirees.

The cost of spousal and dependent coverage was added to the per-retiree costs shown on the previous page, based on the attained age of the spouse. For future retirees, female spouses were assumed to be three years younger than male spouses.

The annual cost of spousal medical coverage was assumed to be 109.25% of retiree cost for a retiree of the same age. Spousal dental coverage was 93.38% of retiree cost, and vision coverage for spouses was assumed to cost \$0 because composite rates are used for vision coverage. The 109.25% and 93.38% percentages were derived based on observed average plan selection and premium tiers in use by the District as of the valuation date.

6.2% of retirees with spouses or domestic partners were assumed to have covered dependent children. The cost of covered dependent children was assumed to be 89.1% of the retiree cost, in addition to the cost of spousal coverage. These percentages were also based on observed plan data.

### Retiree plan selection for current and future retirees:

Based on the mix for current retirees, as follows:

Blue Cross PPO	66.9%
Blue Cross HMO	1.1%
Kaiser HMO/SA	32.0%

### Percent of retirees Waiving District-Paid benefits:

2.4% for all coverages

### For deferred police benefits under 2001 Agreements:

Career entry age - 28 (pre-District LACERA service assumed back to this age)

Retirement age - later of age 55 or attained age at valuation date plus 7 years

Percent married - 60%

LACERA plan selection - Base plan I plus dental; Medicare supplement after 65

## Glossary

**Actuarial Present Value of Future Benefits (PVFB)** - present value of all benefits expected to be paid by the employer, net of expected retiree contributions, based on the actuarial assumptions used in the valuation.

**Accrued Liability (AL)** - past service liability - present value of all benefits earned to date. Since retiree medical benefits aren't accrued according to a specified formula as in a pension plan, the accounting standard (GASB 45) calls for the benefits to be earned ratably from date of hire to date of full eligibility for benefits. For retirees, and for actives who are immediately eligible to retire and receive full benefits, the AL equals the PVFB. For actives not yet eligible to retire, it equals a pro-rata portion of the PVFB based on past service to total service for that employee.

**Unfunded Accrued Liability** – excess of accrued liability over assets.

**Annual Required Contribution (ARC)** – the employer's periodic required contribution to a defined benefit OPEB plan. The portion, as determined by a particular Actuarial Method, of the Actuarial Present Value of the benefits and expenses which is not provided for by future Normal Costs.

**Normal Cost** – the proportion of the Actuarial Present Value (PVFB) of a pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method used in the valuation.

**Amortization Payment** – that portion of the pension plan contribution (ARC) which is designated to pay interest on and to amortize the Actuarial Unfunded Accrued Liability (UAL).

**Closed Group Valuation** – does not consider the Actuarial Present Value of Future Benefits (PVFB) associated with future entrants.

**Pay-as-You-Go** – method of financing a postretirement benefit plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefits and expenses becoming due.

**Service Cost** - Accounting terminology, same as "Normal Cost."

## Actuarial Certification

The results set forth in this report are based on our actuarial valuation of the retiree health insurance plans of the Los Angeles Community College District ("District"), as of July 1, 2005.

The valuation was performed in accordance with generally accepted actuarial principles and practices. We relied on census data for active employees and retirees provided to us by the District in August - October, 2005. We also made use of claims, premium, expense, and enrollment data, and copies of relevant sections of healthcare documents provided to us by the District and by Fickewirth & Associates, the District's health insurance consultant.

The assumptions used in performing the valuation, as summarized in this report, and the results based thereupon, represent our best estimate of the actuarial costs of the program under GASB 43 and GASB 45, and the existing and proposed Actuarial Standards of Practice for measuring post-retirement healthcare benefits.

Throughout the report, we have used unrounded numbers, because rounding and the reconciliation of the rounded results would add an additional, and in our opinion unnecessary, layer of complexity to the valuation process. By our publishing of unrounded results, no implication is made as to the degree of precision inherent in those results. Clients and their auditors should use their own judgment as to the desirability of rounding when transferring the results of this valuation report to the clients' financial statements.

Certified by:

T. Louis Filliger, FSA, EA, MAAA Date: \_\_\_\_\_  
Partner & Actuary