

**Long Beach City College
Actuarial Study of**

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PART I: EXECUTIVE SUMMARY 1

A. INTRODUCTION.....

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the amount necessary to amortize the UAAL over a period of 30 years.

the annual contribution required to fund retiree benefits over the working lifetime of eligible employees (the "normal cost").

The Annual Required Contribution (ARC) which is the basis of calculating the annual OPEB cost and net OPEB obligation under GASB 43 and 45.

We summarized the data used to perform this study in Appendix A. No effort was made to verify this

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	<u>Faculty</u>	<u>Classified</u>	<u>Management</u>
Benefit types provided	Medical only	Medical only	Medical only
Duration of Benefits	1 year for every 5 years of service***	1 year for every 3 years of service	1 year for every 3 years of service
Required Service	15 Years*	12 Years*	12 Years*
Minimum Age	55	50	50
Dependent Coverage	Yes	Yes	Yes
College Contribution %	96% single, 94% Two-party 92% Family**	96% single, 94% Two-party 92% Family**	96% single, 94% Two-party 92% Family**
College Cap	Same as active****	Same as active****	Same as active****

*Those hired prior to 2/1/95 may elect the above benefits or coverage to age 67 if retiring before age 65, or 2 to 4 years of coverage (depending on years of service) if retiring at age 65 or older.

**100% for certain grandfathered participants

***A duration of 1 year for each 3 years of service was offered as part of an incentive retirement window for those retiring June, 2013

****The available Medicare Supplement policies will be limited for those certificated employees retiring after 6/30/14 and other employees retiring after 6/30/15

D. Recommendations

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

Long Beach CCD has represented that no benefits other than medical coverage are available to retirees that are material in value. Should other material benefits be made available to retirees, the District may want to have a new valuation performed.

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

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

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

Long Beach CCD should establish a way of designating employees as eligible or ineligible for

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future OPEB benefits if eligibility rules or plan benefits are changed in such a way that retiree and active benefit eligibility no longer coincide.

Several assumptions were made in estimating costs and liabilities under Long Beach CCD's retiree health program. Further studies may be desired to validate any assumptions where there is any doubt that the assumption is appropriate. (See Appendices B and C for a list of assumptions and concerns.) For example, Long Beach CCD should maintain a retiree database that includes in addition to date of birth, gender and employee classification retirement date and (if applicable) dependent date of birth, relationship and gender. It will

PART II: BACKGROUND

A. Summary

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

B. Actuarial Accrual

To actuarially accrue retiree health benefits requires determining the amount to expense each year so that

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PART VI: APPENDICES

APPENDIX A: MATERIALS USED FOR THIS STUDY

We relied on the following materials to complete this study.

We used paper reports and digital files containing employee demographic data from the District personnel records.

We used relevant sections of collective bargaining agreements provided by the District.

APPENDIX B: EFFECT OF ASSUMPTIONS USED IN CALCULATIONS

While we believe the estimates in this study are reasonable overall, it was necessary for us to use assumptions which inevitably introduce errors. We believe that the errors caused by our assumptions will not materially affect study results. If the District wants more refined estimates for decision-making, we 0(e)9(d)1m -0.0946 . rBT

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

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

If we have been provided with payroll information, we are happy to use that information to help the employer develop an estimate of covered payroll for reporting purposes. However, the validity of the covered payroll

APPENDIX F: GLOSSARY OF RETIREE HEALTH VALUATION TERMS

Note: The following definitions are intended to help a *non-actuary*sa

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