



**Division of Fiscal Services**  
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## MEMORANDUM

**DATE:** July 20, 2015  
**TO:** Karen Janney, Superintendent  
**FROM:** Karen Michel, Chief Financial Officer  
**RE:** ACTUARIAL VALUATION REPORT

The intention of this memorandum is to provide you with information on the Actuarial Valuation Report (attached).

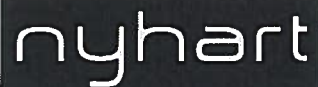
At the July 17, 2014, Board Meeting the Board of Trustees approved Nyhart Epler to conduct an actuarial valuation study. The purpose of the report is to measure the district's liability for retiree health benefits and to determine the district's accounting requirements under the Government Accounting Standards Board Statements No. 43 & 45 (GASB 43 & 45) in regard to unfunded liabilities for retiree health benefits.

There will be a short PowerPoint presentation from Nyhart Epler at the July 27, 2015, Board Meeting as well as an item requesting Board approval of the report.

Please let me know if I can furnish you with additional information.

KM:

Attachment: (1)



# **Sweetwater Union High School District**

## **GASB Actuarial Valuation Retiree Health Program As of July 1, 2014**

February 2015

Submitted By:  
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Consulting Actuary  
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March 9, 2015

**PRIVATE**

Ms. Karen Michel  
Interim Chief Finance Officer  
Sweetwater Union High School District  
1130 Fifth Avenue  
Chula Vista, CA 91911

Re: Sweetwater Union High School District Actuarial Valuation

Dear Ms. Michel:

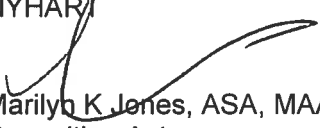
We are presenting our report of the July 1, 2014 actuarial valuation conducted on behalf of Sweetwater Union High School District (the "District") for its retiree health program.

The purpose of the report is to measure the District's liability for retiree health benefits and to determine the District's accounting requirements under the Government Accounting Standard Board Statements No. 43 & 45 (GASB 43 & 45) in regard to unfunded liabilities for retiree health benefits.

The Nyhart Company is an employee owned actuarial, benefits and compensation consulting firm specializing in group health and retiree health and qualified pension plan valuations. We have set forth the results of our valuation in this report.

We have enjoyed working on this assignment and are available to answer any questions.

Sincerely,  
NYHART



Marilyn K. Jones, ASA, MAAA, EA, FCA  
Consulting Actuary

MKJ:rl

Enclosure

**Sweetwater Union High School District**  
**GASB Actuarial Valuation**  
**Retiree Health Program**  
**As of July 1, 2014**

**Table of Contents**

	<u>Page</u>
Section I. Executive Summary .....	1
Section II. Financial Results .....	3
Section III. Projected Cash Flows .....	6
Section IV. Funding Analysis .....	8
Section V. Benefit Plan Provisions .....	9
Section VI. Valuation Data .....	11
Section VII. Actuarial Assumptions and Methods .....	14
Section VIII. Actuarial Certification .....	18
Section IX. Definitions .....	19

## **SECTION I. EXECUTIVE SUMMARY**

### **Background**

The Sweetwater Union High School District (the "District") selected Nyhart to perform an actuarial valuation of its retiree health program. The purpose of the actuarial valuation is to measure the District's liability for retiree health benefits and to determine the District's accounting requirements for other post-employment benefits (OPEB) under the recently issued Governmental Accounting Standards Board Statements No. 43 & 45 (GASB 43 & GASB 45). GASB 45 requires accrual accounting for the expensing of OPEB. GASB 43 requires additional financial disclosure for funded OPEB Plans.

The District currently provides retiree health benefits to age 65 to 291 eligible retirees. In addition, approximately 3,584 active employees are earning service credit towards eligibility for future retiree benefits. An employee must be at least age 55 and have at least 15 years of service at retirement to be eligible for retiree health benefits. The District's contribution is subject to an annual maximum similar to that of current active employees. Section V of the report details the plan provisions that were included in the valuation and the current premium costs for coverage.

Premiums that are charged to retirees for retiree and dependent medical coverage under age 65 are the same as the premiums charged for active medical coverage. Thus, the District is also providing a "rate subsidy" to the retirees by charging for coverage based on a blended rate rather than a retiree only rate. GASB 45 requires that when an employer provides benefits to both active employees and retirees through the same plans, the benefits to retirees should be segregated and measured independently. This requires valuing any "rate subsidy" as an additional financial obligation to the District for GASB purposes.

### **Results of the Retiree Health Valuation**

We have determined that the amount of the actuarial liability for the District's retiree health plan, as of July 1, 2014, is \$101,115,150. This represents the present value of all benefits projected to be paid by the District for current and future retirees. If the District were to place this amount in a fund earning interest at the rate of 4.5% per year, and all other actuarial assumptions were met, the fund would have enough to pay all expected benefits. This includes benefits for the current retirees as well as the current active employees expected to retire in the future. The valuation does not consider employees not yet hired as of the valuation date.

If the amount of the actuarial liability is apportioned into past service, current service and future service components, the past service component (actuarial accrued liability) is \$62,530,157, the current service component (normal cost) is \$3,572,670 and the future service component (future normal costs) is \$35,012,323.

### **Changes from Prior Valuation**

The valuation reflects updated premium rates and census information as well as an update to the mortality table used for PERS employees to reflect the most recent CalPERS experience study. A reconciliation of the change in the actuarial accrued liability from the prior valuation is provided in the following table:

<b>July 1, 2012 Valuation @4.5%</b>	<b>\$49.4 Million</b>
Increase due to interest and normal cost accrual)	6.0 Million
Estimated increase due to increases to medical costs (maximum) more than assumed	3.4 Million
Estimated increase due to net demographic experience loss (turnover, mortality, retirement)	2.9 Million
Increase due to new entrants	0.8 Million
Decrease due to updates to the PERS mortality table	( 0.0 Million)
<b>July 1, 2014 Valuation @4.5%</b>	<b>\$62.5 Million</b>

### Annual Required Contribution (ARC)

Under GASB 45, the District is required to expense for its retiree benefits using accrual accounting. The accrual expense or annual required contribution under GASB terminology is generally accrued over the working career of employees. For the District's 2014/2015 fiscal year, the annual required contribution is \$8,153,227. This amount is comprised of the present value of benefits accruing in the fiscal year (normal cost) plus a 23-year amortization (on a level-dollar basis) of the unfunded actuarial accrued liability (past service liability). Thus, it represents a means to expense the plan's liabilities in an orderly manner. The net OPEB obligation at the end of the fiscal year will reflect any actual retiree health benefits and related payments and any GASB eligible pre-funding amounts made by the District during the period.

### Funding

The District has not informed us of any funds eligible as plan assets under GASB 45. Under GASB 45, assets cannot be considered as employer contributions or plan assets unless they are segregated for exclusive use for retiree health benefit payments and secured from creditors of the District. The District's unfunded actuarial accrued liability at July 1, 2014 is \$62,530,157.

There are multiple ways to approach the funding of a retiree health plan. The annual required contribution (accrual expense) is one method, of many, that could be used to pre-fund benefits. Section IV of the report provides other funding alternatives for the District.

### Actuarial Basis

The actuarial valuation is based on the assumptions and methods outlined in Section VII of the report. To the extent that a single or a combination of assumptions is not met, the future liability may fluctuate significantly from its current measurement. As an example, the healthcare cost increase anticipates that the rate of increase in medical cost will be at moderate levels and decline over several years. Increases higher than assumed would bring larger liabilities and expensing requirements. A 1% increase in the healthcare trend rate for each future year would result in an increase of 12% in the annual required contribution.

Another key assumption used in the valuation is the discount (interest) rate which is based on the expected rate of return of plan assets. The valuation is based on a discount rate of 4.5%. A 0.5% decrease in the discount rate would increase the annual required contribution by 3%. A 0.5% increase in the discount rate would decrease the annual required contribution by 3%.

GASB 45 requires that implicit rate subsidies be considered in the valuation of medical costs. An implicit rate subsidy occurs when the rates for retirees are the same as for active employees. Since pre-Medicare retirees are typically much older than active employees, their actual medical costs are almost always higher than for active employees. It is our understanding that the District participates in a community-rated health plan and is exempt from valuing the implicit rate subsidy. The recently issued OPEB GASB exposure draft and a recent actuarial standard of practice would require including this liability for accounting purposes in future valuations. Inclusion of the implicit rate subsidy will typically result in higher liabilities and expense requirements. An illustration of how the inclusion of the implied rate subsidy could impact the District's liability and annual required contribution is shown below:

	<u>Increase Due to Estimated Implied Rate Subsidy</u>
Actuarial Liability (AL):	\$45,834,172
Actuarial Accrued Liability (AAL):	\$28,045,158
Annual Required Contribution (ARC):	\$ 3,690,667
Expected Subsidy Paid Thru Higher Active Premiums:	\$ 1,235,834

The valuation is based on the census information provided by the District. To the extent that the data provided lacks clarity in interpretation or is missing relevant information, this can result in liabilities different than those presented in the report. Often missing or unclear information is not identified until future valuations.

## SECTION II. FINANCIAL RESULTS

### A. Valuation Results as of July 1, 2014

The table below presents the employer liabilities associated with the District's retiree health benefits determined in accordance with GASB 43 & 45. The actuarial liability is the present value of all benefits projected to be paid under the program. The actuarial accrued liability reflects the amount attributable to the past service of current employees and retirees. The normal cost reflects the accrual attributable for the current period.

	Certificated Employees	Classified Employees	Management, Confidential & Supervisors	District Total
1. Actuarial Liability (AL)				
Actives	\$56,297,157	\$29,628,196	\$7,890,736	\$ 93,816,089
Retirees	<u>3,799,018</u>	<u>2,439,825</u>	<u>1,060,218</u>	<u>7,299,061</u>
Total AL	\$60,096,175	\$32,068,021	\$8,950,954	\$101,115,150
2. Actuarial Accrued Liability (AAL)				
Actives	\$32,292,508	\$17,722,385	\$5,216,203	\$ 55,231,096
Retirees	<u>3,799,018</u>	<u>2,439,825</u>	<u>1,060,218</u>	<u>7,299,061</u>
Total AAL	\$36,091,526	\$20,162,210	\$6,276,421	\$ 62,530,157
3. Normal Cost	\$ 2,090,492	\$ 1,195,225	\$ 286,953	\$ 3,572,670
No. of Active Employees	2,018	1,320	246	3,584
Average Age	45.5	47.0	48.7	46.3
Average Past Service	14.3	13.2	16.9	14.1
No. of Retired Employees	162	87	42	291
Average Age	62.3	61.3	62.1	62.2
Average Retirement Age	58.7	57.4	57.7	58.1

### B. Development of Unfunded Actuarial Accrued Liability

The table below presents the development of the unfunded actuarial accrued liability. The unfunded actuarial accrued liability is the excess of the actuarial accrued liability (AAL) over the actuarial (market) value of eligible plan assets. Eligible plan assets under GASB 43 & 45 must be segregated and secured for the exclusive purpose of paying for the retiree health benefits. The District has not reported any eligible plan assets under GASB 45.

1. Actuarial Accrued Liability (AAL)	\$ 62,530,157
2. Actuarial Value of Assets	( <u>0</u> )
3. Unfunded AAL (UAAL)	\$ 62,530,157

### C. Amortization of Unfunded Actuarial Accrued Liability

The amortization of the UAAL component of the annual contribution (ARC) is being amortized over a period of 22 years on a level-dollar basis. Under the level-dollar method, the amortization payment is scheduled to remain constant in future years.

1. Unfunded AAL (UAAL)	\$62,530,157
2. Amortization Factor	14.147775
3. Amortization of UAAL	\$ 4,419,787

D. Annual Required Contribution (ARC)

The table below presents the development of the annual required contribution (ARC) under GASB 45 for the fiscal year ending June 30, 2015 and estimated for the fiscal year ending June 30, 2016.

FY2014/2015

1. Normal Cost at End of Fiscal Year	\$ 3,733,440
2. Amortization Component	<u>4,419,787</u>
3. Annual Required Contribution	\$ 8,153,227

FY2016/2017

1. Normal Cost at End of Fiscal Year	\$ 3,901,445
2. Amortization Component	<u>4,419,787</u>
3. Annual Required Contribution	\$ 8,321,232

E. Estimated Net OPEB Obligation at June 30, 2015

The table below shows an estimate of the net OPEB obligation at the end of the current fiscal year assuming the District's net OPEB obligation at June 30, 2014 is \$30,414,701 and District contributions for the fiscal year ending June 30, 2014 equal \$2,961,291.

1. Annual Required Contribution (ARC)	\$ 8,153,227
2. Interest on Net OPEB Obligation [E7 x .045]	1,368,662
3. Adjustment to ARC [minus E7/C2]	<u>( 2,149,787)</u>
4. Annual OPEB Cost	\$ 7,372,102
5. Expected Employer Contributions* Made (Inclusive of Benefit Payments)	<u>( 2,961,291)</u>
6. Increase in Net OPEB Obligation	\$ 4,410,811
7. Net OPEB Obligation – June 30, 2014	<u>30,414,701</u>
8. Net OPEB Obligation – June 30, 2015	\$34,825,512

\* Actual payments made by the District should be reflected at year end.

F. Required Supplementary Information (Funding Progress @July 1, 2014)

The table below presents a sample disclosure of the funding progress as of the beginning of the fiscal year.

1. Actuarial Accrued Liability (AAL)	\$ 62,530,157
2. Actuarial Valuation of Assets (AVA)	<u>( 0)</u>
3. Unfunded Actuarial Accrued Liability (UAAL)	\$ 62,530,157
4. Funded Ratio	0%
5. Estimated Payroll	\$214,983,000
6. UAAL as Percentage of Covered Payroll	29%



G. Sensitivity Analysis:

1. The impact of a 0.5% decrease in the discount (interest) rate on the District's actuarial liability, actuarial accrued liability, unfunded actuarial accrued liability and the annual required contribution is provided below:

	<u>Percentage (%) Increase</u>	<u>Dollar (\$) Increase</u>
- Actuarial Liability	7%	\$ 7,450,217
- Actuarial Accrued Liability	6%	\$ 3,476,955
- Unfunded Actuarial Accrued Liability	6%	\$ 3,476,955
- Annual Required Contribution	3%	\$ 280,786

2. The impact of a 0.5% increase in the discount (interest) rate on the District's actuarial liability, actuarial accrued liability, unfunded actuarial accrued liability and the annual required contribution is provided below:

	<u>Percentage (%) Decrease</u>	<u>Dollar (\$) Decrease</u>
- Actuarial Liability	(7%)	(\$ 6,740,129)
- Actuarial Accrued Liability	(5%)	(\$ 3,198,503)
- Unfunded Actuarial Accrued Liability	(5%)	(\$ 3,198,503)
- Annual Required Contribution	(3%)	(\$ 255,816)

3. The impact of a 1% increase in the healthcare trend rates on the District's actuarial liability, actuarial accrued liability, unfunded actuarial accrued liability and the annual required contribution (expense) is provided below:

	<u>Percentage (%) Increase</u>	<u>Dollar (\$) Increase</u>
- Actuarial Liability	14%	\$14,359,434
- Actuarial Accrued Liability	10%	\$ 6,501,967
- Unfunded Actuarial Accrued Liability	10%	\$ 6,501,967
- Annual Required Contribution	12%	\$ 992,052

H. Calculation of Accrual for Retiree Health Cost

The District may be eligible to charge some portion of the accrual for retiree health benefit costs for active employees under specific categorical programs subject to certain restrictions. Estimates of the retiree health benefit accrual with and without an accrual for past service costs are provided below:

1. Number of Active Employees	3,584
2. Estimated Annual Payroll	\$215.0M
3. Retiree Health Benefit Accrual without Past Service Component	
- Accrual Per Employee Per Year	\$1,042
- Accrual as % of Annual Payroll	1.7%
4. Retiree Health Benefit Accrual with Active Past Service Component	
- Accrual Per Employee Per Year	\$2,131
- Accrual as % of Annual Payroll	3.6%
5. Retiree Health Benefit Accrual with Active & Retiree Past Service Component	
- Accrual Per Employee Per Year	\$2,275
- Accrual as % of Annual Payroll	3.8%

### **SECTION III. PROJECTED CASH FLOWS**

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The valuation process includes the projection of the expected benefits to be paid under the District's retiree health benefits program. The expected cash flows takes into account the likelihood of each employee reaching age for eligibility to retire and receive health benefits. The projection is performed by applying the turnover assumption to each active employee for the period between the valuation date and early retirement date. Once the employees reach the earliest retirement date, a certain percent are assumed to enter the retiree group each year. All remaining employees are assumed to have retired by age 65 at the latest. Employees already over age 65 as of the valuation date are assumed to retire immediately. The per capita cost as of the valuation date is projected to increase at the applicable healthcare trend rates both before and after the employee's assumed retirement. The projected per capita costs are multiplied by the number of expected future retirees in a given future year to arrive at the cash flow for that year. Also, a certain number of retirees will leave the group each year due to expected deaths or reaching a limit age and this group will cease to be included in the cash flow from that point forward. Because this is a closed-group valuation, the number of retirees dying each year will eventually exceed the number of new retirees, and the size of the cash flow will begin to decrease and eventually go to zero.

The expected employer cash flows for selected future years are provided in the following table.

Projected Employer Cash Flows – Representative Years

<u>Fiscal Year</u>	<u>Future Retirees</u>	<u>Retired Employees</u>	<u>Total</u>
2014/15	\$ 543,227	\$2,418,064	\$ 2,961,291
2015/16	\$ 1,567,433	\$2,002,122	\$ 3,569,555
2016/17	\$ 2,460,779	\$1,443,332	\$ 3,904,111
2017/18	\$ 3,216,105	\$ 856,399	\$ 4,072,504
2018/19	\$ 3,892,234	\$ 549,822	\$ 4,442,056
2019/20	\$ 4,402,025	\$ 348,451	\$ 4,750,476
2020/21	\$ 4,802,771	\$ 197,539	\$ 5,000,310
2021/22	\$ 5,007,592	\$ 130,828	\$ 5,138,420
2022/23	\$ 5,150,697	\$ 67,015	\$ 5,217,712
2023/24	\$ 5,362,630	\$ 29,316	\$ 5,391,946
2024/25	\$ 5,542,209	\$ 0	\$ 5,542,209
2025/26	\$ 5,979,741	\$ 0	\$ 5,979,741
2026/27	\$ 6,473,363	\$ 0	\$ 6,473,363
2027/28	\$ 6,780,777	\$ 0	\$ 6,780,777
2028/29	\$ 7,071,104	\$ 0	\$ 7,071,104
2029/30	\$ 7,519,004	\$ 0	\$ 7,519,004
2030/31	\$ 7,861,694	\$ 0	\$ 7,861,694
2031/32	\$ 8,124,431	\$ 0	\$ 8,124,431
2032/33	\$ 8,297,804	\$ 0	\$ 8,297,804
2033/34	\$ 8,575,640	\$ 0	\$ 8,575,640
2034/35	\$ 8,732,626	\$ 0	\$ 8,732,626
2035/36	\$ 8,279,354	\$ 0	\$ 8,279,354
2036/37	\$ 8,223,135	\$ 0	\$ 8,223,135
2037/38	\$ 7,707,945	\$ 0	\$ 7,707,945
2038/39	\$ 7,406,521	\$ 0	\$ 7,406,521
2039/40	\$ 6,829,711	\$ 0	\$ 6,829,711
2040/41	\$ 6,363,614	\$ 0	\$ 6,363,614
2041/42	\$ 6,241,888	\$ 0	\$ 6,241,888
2042/43	\$ 5,610,927	\$ 0	\$ 5,610,927
2043/44	\$ 5,106,510	\$ 0	\$ 5,106,510
2044/45	\$ 4,314,059	\$ 0	\$ 4,314,059
2045/46	\$ 3,613,767	\$ 0	\$ 3,613,767
2050/51	\$ 1,274,010	\$ 0	\$ 1,274,010
2055/56	\$ 109,214	\$ 0	\$ 109,214
2060/61	\$ 0	\$ 0	\$ 0
2065/66	\$ 0	\$ 0	\$ 0
All Years	\$200,024,139	\$8,042,888	\$208,067,027

## SECTION IV. FUNDING ANALYSIS

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There are multiple ways to approach the funding of a retiree health plan. The annual required contribution (accrual expense) is one method, of many, that could be used to pre-fund benefits. The annual required contribution amount will fluctuate from year to year based on the asset performance and as the population matures. Presented below are other alternatives to pre-fund the District's obligation (the present value of projected benefits – actuarial liability) for its current active employees and retirees using both level-dollar and level-percentage of pay methods.

	Level Dollar Equivalent			Level Percentage of Pay*		
	<u>20 Years</u>	<u>25 Years</u>	<u>30 Years</u>	<u>20 Years</u>	<u>25 Years</u>	<u>30 Years</u>
Fund Present Value of Projected Benefits (\$101.1M) at July 1, 2014:	\$7.8M	\$6.8M	\$6.2M	2.8%	2.3%	2.0%

\* Eligible employees only; assumes a payroll increase of 3.0% per year

We have listed below some financial advantages that may be achieved pre-funding retiree health benefits. Of course, pre-funding will have to be weighed against alternative uses of the contribution amounts.

- The earlier contributions are made; the less District contributions in aggregate will have to be made to fulfill its obligations.
- Depending on the investment strategy for funds, higher discount rate may be used for the actuarial valuation resulting in lower OPEB liabilities.
- Pre-funding can mitigate any resulting adverse impact on credit rating that could result from disclosure of OPEB liabilities.
- Pre-funding may provide additional benefit security to current and future retirees.

## **SECTION V. BENEFIT PLAN PROVISIONS**

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This study analyzes the postretirement health benefit plans provided by the District. The postretirement health plans and the District's obligation vary by employee group as described below.

### **Certificated, Classified & Other Non-Management Employees**

The District provides retiree medical benefits (including prescription drug benefits) to eligible retirees and their dependents. The District's financial obligation is to pay for retiree medical coverage to age 65 (Medicare eligibility). The District pays up to 100% of the cost for retiree's elected medical coverage up to an annual maximum. The annual maximum is based on the active employee annual medical maximum for medical benefits only. The 2014 maximum is \$11,366 and the 2015 maximum is \$12,106. The retiree pays for any amounts above the District's contribution. The District does not provide any retiree health benefits beyond age 65 or Medicare eligibility, if earlier. No dental and vision coverage is available except through COBRA.

Eligibility for retiree health coverage requires retirement from the District under STRS/PERS on or after age 55 with at least 15 years of total District service. Disability coverage may be available for up to 10 years. Dependent coverage (except COBRA continuation) ceases a year after the death of the retiree or when the retiree would have reached age 65, if earlier. Effective January 1, 2006 spouses over 65 are not covered under the retiree's health plan.

### **Management, Confidential & Supervisors 25+**

The District provides retiree medical benefits (including prescription drug benefits), dental benefits, vision benefits and life benefits to eligible retirees and their dependents. The District's financial obligation is to pay for the retiree and dependent coverage to age 65 (Medicare eligibility). The District pays up to 100% of the cost for retiree's elected coverages up to an annual maximum. The annual maximum is based on the active employee annual maximum. The 2014 maximum is \$11,999 and the 2015 maximum, is \$13,080. The retiree pays for any amounts above the District's contribution. The District does not provide any retiree health benefits beyond age 65 or Medicare eligibility, if earlier.

Eligibility for retiree health coverage requires retirement from the District under STRS/PERS on or after age 55 with at least 15 years of total District service. Supervisors must have at least 15 years of District service and 25 years of total service. Disability coverage may be available for up to 10 years. The retiree pays for any amounts above the District's contribution. Dependent coverage (except COBRA continuation) ceases a year after the death of the retiree or when the retiree reaches age 65, if earlier. Effective January 1, 2006 spouses over 65 are not covered under the retiree's health plan.

### **Board Members**

The District provides continuation of medical benefits (including prescription drug benefits), dental benefits, vision benefits and life benefits to eligible retired Board Members and their dependents. Eligibility requires at least 12 years of consecutive service on the Board at retirement. The eligible Board Member is required to pay the full cost of continuing coverage at retirement.

## Premium Rates

The District participates in the Southern California Schools VEBA which has communicated to the District that it is a community-rated plan. In general, participating employers' rates are based on the experience of the pool. Premium rates may vary by coverage tier and Medicare eligibility. The following tables summarize the monthly premiums for the primary health plans in which the retirees are enrolled.

### Medical Plans

2014	Single	Two-Party	Family
Kaiser \$5	\$ 516.13	\$1,020.02	\$1,438.45
Kaiser \$10	\$ 500.03	\$ 987.82	\$1,392.88
Kaiser \$15	\$ 483.35	\$ 954.44	\$1,345.59
UHC Network 1	\$ 575.57	\$1,128.32	\$1,584.36
UHC Network 2	\$ 747.84	\$1,470.38	\$2,066.33
UHC Network 3	\$ 817.97	\$1,609.37	\$2,262.38
UHC D Network 1	\$ 553.01	\$1,083.51	\$1,521.16
UHC D Network 2	\$ 671.83	\$1,319.45	\$1,853.62
UHC D Network 3	\$ 722.04	\$1,419.73	\$1,995.00
UHC PPO SD - 1	\$1,054.22	\$2,056.61	\$2,879.69
UHC PPO SD - 2	\$1,009.07	\$1,984.31	\$2,781.31
UHC Alliance HMO	\$ 711.75	\$1,372.02	\$1,914.56
SIMNSA	\$ 193.62	\$ 338.53	\$ 496.64

2015	Single	Two-Party	Family
Kaiser \$5	\$ 518.58	\$1,024.71	\$1,444.78
Kaiser \$5 – With Acupuncture	\$ 519.67	\$1,026.91	\$1,447.88
Kaiser \$10	\$ 502.42	\$ 992.39	\$1,399.05
Kaiser \$10 – With Acupuncture	\$ 503.51	\$ 994.59	\$1,402.15
UHC Network 1	\$ 601.79	\$1,180.50	\$1,657.67
UHC Network 2	\$ 790.45	\$1,555.12	\$2,185.58
UHC Network 3	\$ 912.95	\$1,797.34	\$2,527.06
UHC Network 1 – With Acupuncture	\$ 602.88	\$1,182.70	\$1,660.77
UHC Network 2 – With Acupuncture	\$ 791.15	\$1,556.53	\$2,187.57
UHC Network 3 – With Acupuncture	\$ 913.41	\$1,798.24	\$2,528.33
UHC D Network 1	\$ 578.12	\$1,133.53	\$1,591.48
UHC D Network 2	\$ 710.29	\$1,395.94	\$1,961.30
UHC D Network 3	\$ 806.05	\$1,585.99	\$2,229.06
UHC PPO SD - 1	\$1,014.51	\$1,994.11	\$2,794.47
UHC PPO SD - 2	\$1,059.61	\$2,066.30	\$2,892.72
UHC Alliance HMO	\$ 723.98	\$1,395.69	\$1,947.81
SIMNSA	\$ 199.27	\$ 348.52	\$ 511.38

### Dental & Vision Plans

2014	Delta Dental	MetLife	Vision Plan
Single	\$44.67	\$20.70	\$7.90
Two-Party	\$86.84	\$39.33	\$15.80
Family	\$155.27	\$54.86	\$25.43

2015	Delta Dental	MetLife	Vision Plan
Single	\$46.90	\$21.32	\$7.68
Two-Party	\$86.84	\$40.51	\$15.37
Family	\$163.03	\$56.51	\$24.74

## SECTION VI. VALUATION DATA

The valuation was based on the census furnished to us by the District. The following tables display the current age distribution for retirees and age/service distribution for active employees.

### Age Distribution of Eligible Retired Participants & Beneficiaries

	Certificated	Classified	Management & Others	Total
<55	0	0	0	0
55-59	17	23	5	45
60-64	145	64	37	246
65+	0	0	0	0
Total:	162	87	42	291
Opt Outs Included	0	2	1	3
Average Age:	62.3	61.3	62.1	62.2
Average Retirement Age:	58.7	57.4	57.7	58.1

### Age/Service Distribution of All Active Benefit Eligible Employees

Age	Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	
20-24	43	4								47
25-29	96	58	13							167
30-34	103	195	85	24						407
35-39	63	172	167	70	22	2				496
40-44	37	143	210	153	41	12				596
45-49	32	104	105	119	100	28	4			492
50-54	32	94	101	79	68	88	25			487
55-59	26	58	84	87	61	88	58	15		477
60-64	10	36	76	51	38	52	18	20	3	304
65-69	4	15	17	22	17	13	2	0	4	94
70+	0	1	5	3	2	2	0	3	1	17
Total:	446	880	863	608	349	285	107	38	8	3,584
Average Age:			46.3							
Average Service:			14.1							

### Age/Service Distribution of All Eligible Active Certificated Employees

Age	Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	
20-24	22									22
25-29	57	24	3							84
30-34	66	133	39	11						249
35-39	46	120	111	36	10	2				325
40-44	18	82	147	111	22	9				389
45-49	13	48	49	79	75	10	2			276
50-54	18	35	39	43	39	45	7			226
55-59	10	20	30	38	31	60	36	7		232
60-64	5	14	32	22	21	27	14	16	2	153
65-69	3	6	7	12	10	9	1	0	4	52
70+	0	0	3	0	2	1	0	3	1	10
Total:	258	482	460	352	210	163	60	26	7	2,018
Average Age:			45.5							
Average Service:			14.3							

### Age/Service Distribution of All Eligible Active Classified Employees

Age	Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	
20-24	21	4								25
25-29	38	34	10							82
30-34	26	56	41	12						135
35-39	14	45	45	28	9					141
40-44	17	53	50	28	14	2				164
45-49	15	55	53	31	17	15	1			187
50-54	11	58	56	31	24	21	17			218
55-59	13	35	51	42	24	16	18	6		205
60-64	2	20	37	22	15	19	2	1		118
65-69	1	9	10	10	6	2	1	0	0	39
70+	0	1	2	2	0	1	0	0	0	6
Total:	158	370	355	206	109	76	39	7	0	1,320
Average Age:			47.0							
Average Service:			13.2							



Age/Service Distribution of Active Eligible Management/Confidential & Other Employees

Age	Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	
20-24	0									0
25-29	1									1
30-34	11	6	5	1						23
35-39	3	7	11	6	3					30
40-44	2	8	13	14	5	1				43
45-49	4	1	3	9	8	3	1			29
50-54	3	1	6	5	5	22	1			43
55-59	3	3	3	7	6	12	4	2		40
60-64	3	2	7	7	2	6	2	3	1	33
65-69	0	0	0	0	1	2	0	0	0	3
70+	0	0	0	1	0	0	0	0	0	1
Total:	30	28	48	50	30	46	8	5	1	246
Average Age:			48.7							
Average Service:			16.9							

## **SECTION VII. ACTUARIAL ASSUMPTIONS AND METHODS**

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

Fiscal Year: July 1<sup>st</sup> to June 30<sup>th</sup>

Measurement Date: July 1, 2014

Fiscal Years Covered: Fiscal year ending June 30, 2015 (FY2014/2015) and fiscal year ending June 30, 2016 (FY2015/2016)

Discount Rate: 4.5% per annum. This discount rate assumes the District continues to fund for its retiree health benefits on a pay-as-you-go basis.

Sensitivity analysis showing a 0.5% increase or decrease in the discount rate is also provided.

Inflation: 2.75% per annum

Pre-retirement Turnover: According to the Crocker-Sarason T-5 turnover table less mortality. Sample rates are as follows:

Age	Males	Females
20	7.9%	7.9%
25	7.7	7.7
30	7.2	7.2
35	6.3	6.3
40	5.2	5.2
45	4.0	4.0
50	2.6	2.6
55	0.9	0.9

## Mortality Rates:

Mortality rates are based on the most recent rates used by CalPERS and STRS for the pension valuations. Sample rates are as follows:

CalPERS	Actives		Retirees	
Age	Males	Females	Males	Females
25	0.040%	0.023%		
30	0.049%	0.025%		
35	0.057%	0.035%		
40	0.075%	0.050%		
45	0.106%	0.071%		
50	0.155%	0.100%		
55	0.228%	0.138%	0.599%	0.416%
60	0.308%	0.182%	0.710%	0.436%
65	0.400%	0.257%	0.829%	0.588%
70			1.305%	0.993%
75			2.205%	1.722%
80			3.899%	2.902%

*[The PERS mortality rates have been updated to reflect mortality improvements reported in the 2014 CalPERS Experience Study]*

STRS	Actives		Retirees*	
Age	Males	Females	Males	Females
25	0.023%	0.013%		
30	0.033%	0.014%		
35	0.034%	0.018%		
40	0.057%	0.034%		
45	0.076%	0.041%		
50	0.103%	0.063%		
55	0.143%	0.093%	0.164%	0.118%
60	0.238%	0.179%	0.300%	0.254%
65	0.435%	0.368%	0.596%	0.468%
70			1.095%	0.864%
75			1.886%	1.451%
80			3.772%	2.759%

\*Rates applicable to future retirees include a 2 year setback.

## Retirement Rates:

Age	Percent Retiring*	
	STRS Employees	PERS Employees
50	0.0%	2.0%
51	0.0%	2.0%
52	0.0%	2.0%
53	0.0%	2.0%
54	0.0%	2.0%
55	25.0%	25.0%
56	15.0%	15.0%
57	10.0%	10.0%
58	10.0%	10.0%
59	10.0%	10.0%
60	50.0%	50.0%
61	35.0%	35.0%
62	50.0%	50.0%
63	25.0%	25.0%
64	25.0%	25.0%
65	100.0%	100.0%

\* Of those having met eligibility to receive District paid pension benefits. The percentage refers to the probability that an active employee who has reached the stated age will retire within the following year. Rates are set back 2 years for employees hired on or after January 1, 2013.

## Participation Rates:

Active employees meeting eligibility for retirement are assumed to elect retiree health coverage at retirement and elect plan coverage based on their current plan elections. Employees currently waiving coverage are assumed to waive coverage.

## Spouse Coverage:

55% of future retirees electing coverage are assumed to be married and elect coverage for their spouse. Spouses are assumed to be same age as retiree. Actual spouse coverage and spouse ages are used for current retirees.

## Claim Cost Development:

The valuation was based on the health plan premiums furnished by the District. For medical coverage, the District participates in the Southern California Schools VEBA which was considered a community-rated plan. It was assumed that withdrawal of the District from the VEBA would not materially change the premiums charged under the VEBA.

## Medical Trend Rates:

The current medical costs are assumed to increase at the following trend rates:

Year	Trend
2016	7.5%
2017	7.0%
2018	6.5%
2019	6.0%
2020	5.5%
2021+	5.0%

**Dental & Vision Trend Rates:**

Year	Trend
2016+	4.0%

**Annual Maximums:** The annual medical maximums are assumed to increase based on the ultimate medical trend rate.

**Actuarial Cost Method:** The actuarial cost method used was Projected Unit Credit with service prorate. Under this method, the Actuarial Accrued Liability is the present value of projected benefits multiplied by the ratio of benefit service as of the valuation date to the projected benefit service at retirement, termination, disability or death. The Normal Cost for a plan year is the expected increase in the Accrued Liability during the plan year.

All employees eligible as of the measurement date in accordance with the provisions of the Plan listed in the data provided by the District were included in the valuation.

**Actuarial Value of Assets:** As of the valuation date there are no GASB eligible plan assets.

**Amortization of UAAL:** The unfunded actuarial accrued liability is being amortized over an initial 30 years using a level dollar amortization method. The outstanding unfunded liability is amortized over 23 years.

## **SECTION VIII. ACTUARIAL CERTIFICATION**

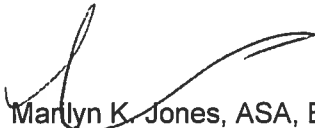
The results set forth in this report are based on the actuarial valuation of the retiree health benefit plans of Sweetwater Union High School District (the "District") as of July 1, 2014.

The valuation was performed in accordance with generally accepted actuarial principles and practices and in accordance with GASB Statements No. 43 & 45. We relied on census data for active employees and retirees provided to us by the District. We also made use of plan information, premium information, and enrollment information provided to us by the District.

The assumptions used in performing the valuation, as summarized in this report, and the results based thereupon, represent our best estimate of anticipated experience and actuarial cost of the retiree health benefits program.

I am a member of the American Academy of Actuaries and believe I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Certified by:



Marilyn K. Jones, ASA, EA, MAAA, FCA  
Consulting Actuary

Date: 3/9/2015

## **SECTION IX. DEFINITIONS**

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The definitions of the terms used in GASB actuarial valuations are noted below.

**Actuarial Liability (also referred to as Present Value of Future Benefits)** – 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 Accrued Liability** – That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of plan benefits and expenses which is not provided for by the future Normal Costs.

**Actuarial Assumptions** – Assumptions as to the occurrence of future events affecting health care costs, such as: mortality, turnover, disablement and retirement; changes in compensation and Government provided health care benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; characteristics of future entrants for Open Group Actuarial Cost Methods; and other relevant items.

**Actuarial Cost Method** – A procedure for determining the Actuarial Present Value of future benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.

**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.

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

**Annual Required Contribution (ARC)** – The employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.

**Explicit Subsidy** – The difference between (a) the amounts required to be contributed by the retirees based on the premium rates and (b) actual cash contribution made by the employer.

**Funded Ratio** – The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

**Healthcare Cost Trend Rate** – The rate of change in the 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.

**Implicit Rate Subsidy** – In an experience-rated healthcare plan that includes both active employees and retirees with blended premium rates for all plan members, the difference between (a) the age-adjusted premiums approximating claim costs for retirees in the group (which, because of the effect of age on claim costs, generally will be higher than the blended premium rates for all group members) and (b) the amounts required to be contributed by the retirees.

**Net OPEB Obligation** – 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 which is allocated to a valuation year by the Actuarial Cost Method.

**Pay-as-you-go** – A method of financing a benefit 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.

**Per Capita Costs** – The current cost of providing postretirement health care benefits for one year at each age from the youngest age to the oldest age at which plan participants are expected to receive benefits under the plan.

**Select and Ultimate Rates** – Actuarial assumptions that contemplate different rates for successive years. Instead of a single assumed rate with respect to, for example, the healthcare trend rate assumption, the actuary may apply different rates for the early years of a projection and a single rate for all subsequent years. For example, if an actuary applies an assumed healthcare trend rate of 6.5% for year 20W0, 6.0% for 20W1, 5.5% for 20W2, then 5.0% for 20W3 and thereafter, then 6.5%, 6% and 5.5% are select rates, and 5% is the ultimate rate.

**Substantive Plan** – The terms of an OPEB plan as understood by the employer(s) and plan participant.