



**City of Encinitas
GASB Actuarial Valuation
Retiree Health Program
As of June 30, 2013**

April 2014

Prepared By:
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April 29, 2014

PRIVATE

Mr. Jay Lembach
Finance Manager
City of Encinitas
505 S. Vulcan Avenue
Encinitas, CA 92024

Re: GASB Actuarial Valuation

Dear Mr. Lembach:

We are presenting our report of the June 30, 2013 actuarial valuation conducted on behalf of the City of Encinitas (the "City") for its retiree health program.

The purpose of the valuation is to measure the City's liability for retiree health benefits and to determine the City'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 objective of GASB 45 is to improve the information in the financial reports of government entities regarding their post-employment benefits (OPEB) including retiree health benefits. The objective of GASB 43 is to establish uniform reporting for OPEB Plans.

Nyhart Epler is the San Diego office of the Nyhart Company, 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/Epler


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

MKJ:rl

Enclosure

As required by U.S. Treasury Regulations governing tax practice, IRS Circular 230 Tax Advice Disclaimer, you are hereby advised that any written tax advice contained herein was not written or intended to be used (and cannot be used) by any taxpayer for the purpose of avoiding penalties that may be imposed under the U.S. Internal Revenue Code.

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SECTION I. EXECUTIVE SUMMARY

Background

The City of Encinitas (the "City") selected Nyhart Epler to perform an updated actuarial valuation of its retiree health program. The purpose of the actuarial valuation is to measure the City's liability for retiree health benefits and to determine the City's accounting requirements for other post-employment benefits (OPEB) under Governmental Accounting Standards Board Statements No. 43 & 45 (GASB 43 and GASB 45). GASB 45 requires accrual accounting for the expensing of OPEB. The expense is generally accrued over the working career of employees. GASB 43 requires additional financial disclosure requirements for funded OPEB Plans.

To be eligible for retiree health benefits, an employee must retire from the City and commence pension benefits under PERS (typically on or after age 50 with at least 5 years of PERS eligible service). The City's financial obligation is to provide the CalPERS minimum required employee contribution (\$115 per month in 2013, \$119 per month in 2014, and in future years, indexed to medical CPI increases) except for former Encinitas Fire Protection District employees hired on or before March 15, 1995 who receive full retiree health benefits for both the employee and their dependents.

The City currently has 210 active employees who are working and earning service credit for eligibility of retiree health benefits. The City currently provides a contribution towards retiree medical benefits which are provided through the CalPERS Health Program for 75 retirees (47 safety and 28 miscellaneous). This information can be found on page 13 in Valuation Data section.

The City pays the cost for lifetime retiree and dependent health benefits for Encinitas Fire Protection District employees hired on or before March 15, 1995. Currently there are 53 retirees (47 firefighters and 6 miscellaneous) receiving an additional stipend which pays for full coverage of the eligible retiree and their covered dependents up to a monthly maximum based on the average of available plans. There are also 15 active employees eligible to receive full retiree health benefits.

There are currently 22 retirees receiving the minimum required employee contribution (MRC) from the City and 195 active employees eligible to receive this benefit upon retiring from the City.

Summary of Participants

<u>Eligible Benefits</u>	<u>Actives</u>	<u>Retirees</u>
Full Benefits	15	53
Minimum Required Contribution (MRC)	<u>195</u>	<u>22</u>
Total	210	75

Results of the Retiree Health Valuation

The amount of the actuarial liability for the City's retiree health benefits program as of June 30, 2013, the measurement date, is \$9,335,607 (\$8,035,338 for former Fire Protection District employees receiving full benefits and \$1,300,269 for employees receiving the MRC including miscellaneous employees). This amount is based on a discount rate of 7.61% which assumes the City continues to pre-fund its annual required contribution in the California Employers' Retiree Benefit Trust (CERBT) under the CERBT's asset allocation strategy 1. The amount represents the present value of all contributions for retiree health benefits projected to be paid by the City for current and future retirees.

If the City were to place this amount in a fund earning interest at the rate of 7.61% per year, and all other actuarial assumptions were exactly met, the fund would have exactly enough to pay all expected benefits.

This includes contributions for retiree health 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 \$8,686,482, the current service component (normal cost or current year accrual) is \$106,341 and the future service component (not yet accrued liability) is \$542,784.

Funding

The City’s funding policy is to fund at least 100% of the annual required contribution as determined under GASB 45 through the CERBT. The market value of assets in the CERBT as of June 30, 2013 is \$2,335,163. The actuarial value of assets at June 30, 2013 is \$2,178,801. The actuarial value of asset method phases gains and losses in over five years subject to a 20% corridor around the market value of assets. Using the actuarial value of assets, the unfunded actuarial accrued liability at June 30, 2013 is \$6,507,681 and the plan’s funded ratio is 25%.

The CERBT provides participating employers with the choice of three investment allocation strategies. The expected rate of return of assets is dependent on the funding strategy of a participating employer and which investment allocation strategy is selected. For employers fully funding their annual required contribution, strategy 1 has a CERBT published median yield of 7.61%, strategy 2 has a published median yield of 7.06% and strategy 3 has a published median yield of 6.39%. The valuation was performed using a 7.61% discount rate assuming the City remains in strategy 1 for the 2014/2015 and 2015/2016 fiscal years and assumes no additional margin for adverse deviation applied to the CERBT stated median discount rate. The results for alternative allocation strategies using a 7.06% and 6.39% discount rate are provided in Section II-K of the report

Annual Required Contribution

The City’s annual required contribution (ARC) for the fiscal year ending June 30, 2015 is \$543,693. The annual required contribution is comprised of the present value of benefits accruing in the current fiscal year (normal cost with interest) plus a 26-year amortization (on a level-percentage of pay basis) of the unfunded actuarial accrued liability. Thus, it represents a means to expense the plan's liabilities in an orderly manner. The change in the net OPEB obligation/(asset) at the end of the fiscal year will reflect any actual contributions made by the City during the period for retiree health benefits including any pre-funding amounts.

The valuation reflects updated census, asset and premium information. In addition, it reflects a change to the spousal coverage assumption to reflect actual experience and an update to the initial medical trend rate used to determine future expected medical costs. A reconciliation of the approximate changes in the annual required contribution (rounded to the nearest \$1,000) is provided below:

2013/2014 Annual Required Contribution@7.61%	\$785,000
Change due to net experience gain (primarily more favorable medical costs)	(251,000)
Increase due to new entrants (not included in prior valuation)	22,000
Decrease due to lowering of spouse coverage from 80% to 50%	(55,000)
Increase due to increasing the initial medical trend rates by 0.5%	43,000
2014/2015 Annual Required Contribution@7.61%	\$544,000

Actuarial Basis

The actuarial valuation is based on the assumptions and methods outlined in Section VI 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 increase the annual required contribution by 21%.

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 7.61%. A 0.5% decrease in the discount rate would increase the annual required contribution by 4%. A 0.5% increase in the discount rate would decrease the annual required contribution by 4%.

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 City participates in a community-rated health plan (CalPERS Health Plan) and is exempt from valuing the implicit rate subsidy. A proposed Actuarial Standard of Practice would require all actuarial valuations to include the implicit rate subsidy in the valuation of health benefits. If adopted, this could lead GASB to eliminate the exemption from including the implicit rate subsidy in community-rated plans for future valuations. Inclusion of the implicit rate subsidy would result in significantly higher liabilities and expense requirements for the City. To date the City's specific experience data in aggregate or split by actives and retirees is not available from the CalPERS Health Plan. An illustration of how the inclusion of the implied rate subsidy could impact the City's liability and annual required contribution estimating the subsidy using health cost factors based on age and the City's active and retiree populations is shown below:

	<u>Increase Due to Estimated Implied Rate Subsidy</u>
Unfunded Actuarial Accrued Liability (UAAL):	\$2,014,000
Annual Required Contribution (ARC):	\$ 205,000
Expected Subsidy Paid Thru Active Premiums:	\$ 239,000

The valuation is based on the census, plan and rate information provided by the City. 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 June 30, 2013

The table below presents the employer liabilities associated with the City's retiree health benefits determined in accordance with GASB 45. The actuarial liability is the present value of all benefits or contributions projected to be paid by the City 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.

	<u>Full Benefits*</u>	<u>MRC Benefits</u>	<u>Total</u>
1. Actuarial Liability (AL)			
Actives	\$2,191,365	\$ 845,366	\$3,036,731
Retirees	<u>5,843,973</u>	<u>454,903</u>	<u>6,298,876</u>
Total AL	\$8,035,338	\$1,300,269	\$9,335,607
2. Actuarial Accrued Liability (AAL)			
Actives	\$1,933,065	\$ 454,541	\$2,387,606
Retirees	<u>5,843,973</u>	<u>454,903</u>	<u>6,298,876</u>
Total AAL	\$7,777,038	\$ 909,444	\$8,686,482
3. Normal Cost	\$ 56,810	\$ 49,531	\$ 106,341
No. of Actives	15	195	210
Average Age	51.7	45.1	45.6
Average Past Service	25.9	9.2	10.4
No. of Retirees	53	22	75
Average Age	67.0	66.8	66.9
Average Retirement Age	54.9	62.2	57.0

* These employees are eligible for stipend for full benefits up to a maximum.

B. Reconciliation of Market Value of Plan Assets

The reconciliation of Plan Assets for the last two fiscal years is presented below:

	<u>6/30/2012</u>	<u>6/30/2013</u>
1. Beginning Market Value of Assets	\$1,512,647	\$1,818,440
2. Contribution	803,000	759,820
3. Fund Earnings (gross)	6,315	306,148
4. Benefit Payments	(500,847)	(545,045)
5. Administrative Expenses	<u>(2,675)</u>	<u>(4,200)</u>
6. Ending Market Value of Assets	\$1,818,440	\$2,335,163
7. Estimated Rate of Return	0%	16%

C. Development of Actuarial Value of Assets

The actuarial value of assets is based on the expected market value appreciation. The actual market appreciation or depreciation, both realized and unrealized, is phased in over five years as the expected growth is phased out. The table below presents the development of the actuarial value of assets.

	<u>6/30/2010</u>	<u>6/30/2011</u>	<u>6/30/2012</u>	<u>6/30/2013</u>	
1 Market value of assets					\$2,335,163
2 Actual gross rate of return	34.15%	24.70%	0.38%	15.91%	
3 Expected rate of return	7.75%	7.75%	7.61%	7.61%	
4 Actual fund earnings	177,682	266,676	6,315	306,148	756,821
5 Expected fund earnings	40,329	83,665	126,507	146,396	396,897
6 Gain(loss) [(4) - (5)]	137,353	183,011	(120,192)	159,752	
7 Percent of gain/(loss) recognized 6/30/2013	80%	60%	40%	20%	
8 Recognized gain/(loss) [(6) x (7)]	109,882	109,807	(48,077)	31,950	203,562
9. Blended value of assets at 6/30/2013 [(1) - (4) + (5) + (8)]					\$2,178,801
10. Percent increase/(decrease) of (9) over (1)					(6.7%)
11. Actuarial value of assets, not more than 120% nor less than 80% of market value					\$2,178,801

D. Development of Unfunded Actuarial Accrued Liability (UAAL)

The table below presents the development of the unfunded actuarial accrued liability (UAAL). The UAAL is the excess of the actuarial accrued liability (AAL) over the actuarial value of eligible plan assets. Eligible assets under GASB 45 must be segregated and secured for the exclusive purpose of paying for the retiree health benefits.

1. Actuarial Accrued Liability (AAL)	\$8,686,482
2. Actuarial Value of Assets	<u>(2,178,801)</u>
3. Unfunded AAL (UAAL)	\$6,507,681

E. Projected Actuarial Value of Assets @June 30, 2014

The table below presents the development of the expected actuarial value of assets at June 30, 2014 for purposes of developing the annual required contribution.

1. Actuarial Value of Assets at June 30, 2013	\$2,178,801
2. Expected Fund Earnings @7.61%	198,979
3. Actual Employer Contribution	784,514
4. Expected Benefit Payments & Expenses	<u>(566,469)</u>
5. Expected Actuarial Value of Assets at June 30, 2014	\$2,595,825

F. Projected Unfunded Actuarial Accrued Liability (UAAL) at June 30, 2014

The table below presents the projected unfunded actuarial accrued liability at June 30, 2014 for the determination of the annual required contribution.

1. Projected AAL	\$8,873,934
2. Actuarial Value of Assets	<u>(2,595,825)</u>
3. Unfunded AAL (UAAL)	\$6,278,109

G. Amortization of Unfunded Actuarial Accrued Liability (UAAL)

The amortization of the UAAL component of the annual required contribution (ARC) is being amortized over 26 years on a level-percentage of pay basis. Under the level-percentage of pay method, the amortization payment is scheduled to increase in future years by wage inflation.

1. Unfunded AAL (UAAL)	\$6,278,109
2. Amortization Factor	14.743355
3. Amortization of UAAL	\$ 425,826

H. Annual Required Contribution (ARC)

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

	<u>2014/2015</u>	<u>2015/2016</u>
1. Normal Cost at End of Year	\$ 117,867	\$ 121,403
2. Amortization of UAAL at End of Year	<u>425,826</u>	<u>438,601</u>
3. Annual Required Contribution (ARC)	\$ 543,693	\$ 560,004
4. Estimated Payroll	\$18,135,000	\$18,679,000
5. Normal Cost a % of Payroll	0.7%	0.7%
6. Amortization as % of Payroll	<u>2.3%</u>	<u>2.3%</u>
7. ARC as % of Payroll	3.0%	3.0%

I. Estimated Net OPEB Obligation at June 30, 2015

The table below shows an estimate of the net OPEB obligation/(asset) at June 30, 2015 assuming the net OPEB obligation at June 30, 2014 is \$0 and that the City contributes the 2014/2015 annual required contribution inclusive of benefits paid by June 30, 2015::

1. Annual Required Contribution (ARC)	\$ 543,693
2. Interest on Net OPEB Obligation	0
3. Adjustment to ARC	<u>(0)</u>
4. Annual OPEB Cost	\$ 543,693
5. Estimated City Contributions Made (Net of Benefit Payments)	<u>(543,693)</u>
6. Increase in Net OPEB Obligation	\$ 0
7. Net OPEB Obligation – June 30, 2014	<u>0</u>
8. Net OPEB Obligation – June 30, 2015	\$ 0

J. Sensitivity Analysis:

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

	<u>Dollar</u> <u>(\$)</u> <u>Increase</u>	<u>Percentage</u> <u>(%)</u> <u>Increase</u>
- Unfunded Actuarial Accrued Liability	\$470,500	7%
- FY2014/2015 Annual Required Contribution	\$ 22,238	4%
- FY2015/2016 Annual Required Contribution	\$ 22,906	4%

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

	<u>Dollar</u> <u>(\$)</u> <u>Decrease</u>	<u>Percentage</u> <u>(%)</u> <u>Decrease</u>
- Unfunded Actuarial Accrued Liability	(\$431,311)	(7%)
- FY2014/2015 Annual Required Contribution	(\$ 20,535)	(4%)
- FY2015/2016 Annual Required Contribution	(\$ 21,151)	(4%)

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

	<u>Dollar</u> <u>(\$)</u> <u>Increase</u>	<u>Percentage</u> <u>(%)</u> <u>Increase</u>
- Unfunded Actuarial Accrued Liability	\$1,309,615	21%
- FY2014/2015 Annual Required Contribution	\$ 111,973	21%
- FY2015/2016 Annual Required Contribution	\$ 115,332	21%

K. Liabilities - Alternative Discount Rates

The City also requested the measurement of the liability and annual required contribution using a discount rate to reflect pre-funding the retiree health benefits through the California Employers' Retiree Benefit Trust (CERBT) alternative allocation strategies 2 and 3 with discount rates of 7.06% and 6.39%, respectively. Asset allocation strategies 2 and 3 reflect more conservative allocations by asset classes than strategy 1 under which the City's assets are currently invested. The impact under the alternative discount rates on the City liabilities is reflected in the table below.

<u>Projected Liability & Assets</u>	<u>Discount Rate</u>		
	<u>7.61%</u>	<u>7.06%</u>	<u>6.39%</u>
1. Projected Actuarial Accrued Liability	\$ 8,873,934	\$ 9,393,818	\$10,100,486
2. Projected Actuarial Value of Assets	<u>(2,595,825)</u>	<u>(2,595,825)</u>	<u>(2,595,825)</u>
3. Projected Unfunded AAL (UAAL)	\$ 6,278,109	\$ 6,797,993	\$ 7,504,661
4. Amortization Factor*	14.743355	15.616209	16.788479
<u>FY2014/2015 Annual Required Contribution (ARC)</u>			
1. Normal Cost at End of Year	\$ 117,867	\$ 132,944	\$ 154,527
2. Amortization of UAAL at End of Year	<u>425,826</u>	<u>435,316</u>	<u>447,013</u>
3. Annual Required Contribution (ARC)	\$ 543,693	\$ 568,260	\$ 601,540
4. Estimated Payroll	\$18,135,000	\$18,135,000	\$18,135,000
5. ARC as Percentage of Payroll	3.0%	3.1%	3.3%
<u>FY2015/2016 Annual Required Contribution (ARC)</u>			
1. Normal Cost at End of Year	\$ 121,403	\$ 136,932	\$ 159,162
2. Amortization of UAAL at End of Year	<u>438,601</u>	<u>448,376</u>	<u>460,423</u>
3. Annual Required Contribution (ARC)	\$ 560,004	\$ 585,308	\$ 619,585
4. Estimated Payroll	\$18,679,000	\$18,679,000	\$18,679,000
5. ARC as Percentage of Payroll	3.0%	3.1%	3.3%

* Based on Level-Percentage of Pay Method over 26 years

SECTION III. PROJECTED CASH FLOWS

The valuation process includes the projection of the expected retiree benefits/contributions to be paid by the City under the Plan. This expected cash flow 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 retirement date. Once the employees reach their retirement date, a certain percent are assumed to enter the retiree group each year. Employees already over the latest assumed retirement age 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 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: All City Retirees – Representative Years

<u>Fiscal Year</u>	<u>Future Retirees</u>	<u>Retired Employees</u>	<u>City Total</u>
2013/14	\$ 30,021	\$ 536,448	\$ 566,469
2014/15	\$ 60,291	\$ 515,457	\$ 575,748
2015/16	\$ 90,472	\$ 533,018	\$ 623,490
2016/17	\$ 119,201	\$ 550,413	\$ 669,614
2017/18	\$ 147,940	\$ 558,696	\$ 706,636
2018/19	\$ 172,202	\$ 544,960	\$ 717,162
2019/20	\$ 195,459	\$ 548,372	\$ 743,831
2020/21	\$ 218,390	\$ 510,760	\$ 729,150
2021/22	\$ 240,548	\$ 497,343	\$ 737,891
2022/23	\$ 258,902	\$ 498,635	\$ 757,537
2023/24	\$ 275,979	\$ 500,264	\$ 776,243
2024/25	\$ 279,337	\$ 508,270	\$ 787,607
2025/26	\$ 280,481	\$ 497,284	\$ 777,765
2026/27	\$ 292,097	\$ 490,591	\$ 782,688
2027/28	\$ 293,769	\$ 493,724	\$ 787,493
2028/29	\$ 295,728	\$ 495,374	\$ 791,102
2029/30	\$ 298,730	\$ 488,691	\$ 787,421
2030/31	\$ 315,562	\$ 486,811	\$ 802,373
2031/32	\$ 328,418	\$ 483,157	\$ 811,575
2032/33	\$ 322,095	\$ 477,647	\$ 799,742
2033/34	\$ 336,785	\$ 470,272	\$ 807,057
2034/35	\$ 350,923	\$ 455,947	\$ 806,870
2035/36	\$ 353,715	\$ 444,640	\$ 798,355
2036/37	\$ 366,372	\$ 431,480	\$ 797,852
2037/38	\$ 378,032	\$ 416,440	\$ 794,472
2038/39	\$ 388,738	\$ 399,578	\$ 788,316
2039/40	\$ 398,228	\$ 381,074	\$ 779,302
2040/41	\$ 406,485	\$ 361,164	\$ 767,649
2041/42	\$ 413,184	\$ 340,082	\$ 753,266
2042/43	\$ 418,175	\$ 318,033	\$ 736,208
2043/44	\$ 421,370	\$ 295,246	\$ 716,616
2044/45	\$ 422,539	\$ 271,964	\$ 694,503
2045/46	\$ 421,781	\$ 248,463	\$ 670,244
2050/51	\$ 385,915	\$ 138,359	\$ 524,274
2055/56	\$ 304,535	\$ 62,043	\$ 366,578
2060/61	\$ 210,080	\$ 22,330	\$ 232,410
2065/66	\$ 133,128	\$ 5,985	\$ 139,113
2070/71	\$ 78,312	\$ 961	\$ 79,273
2075/76	\$ 39,206	\$ 0	\$ 39,206
2080/81	\$ 14,314	\$ 0	\$ 14,314
2085/86	\$ 3,206	\$ 0	\$ 3,206
2090/91	\$ 335	\$ 0	\$ 335
2095/96	\$ 0	\$ 0	\$ 0
2100/01	\$ 0	\$ 0	\$ 0
All Years	\$16,277,168	\$16,648,431	\$32,925,599

SECTION IV. BENEFIT PLAN PROVISIONS

This study analyzes the postretirement health benefit plan provided by the City. The City contributes to the retiree health coverage of eligible retirees and eligible surviving spouses. The City's financial obligation is as follows:

Except for former Encinitas Fire Protection District employees hired on or before March 15, 1995, the City provides the minimum required employer contribution under the CalPERS Health Plan for eligible retirees and surviving spouses in receipt of a pension benefit from PERS. An employee is eligible for this employer contribution provided they are vested in their PERS pension benefit and commence payment of their pension benefit when retiring from the City. The surviving spouse of an eligible retiree who elected spouse coverage under CalPERS is eligible for the employer contribution upon the death of the retiree.

The minimum required employer contributions is statutorily set under PEMHCA and is scheduled to increase in the future based on the medical portion of CPI. A history of the increases in past years and current amounts are as follows:

Calendar Year	Minimum Required Employer Contribution
2006	\$64.60
2007	\$80.80
2008	\$97.00
2009	\$101.00
2010	\$105.00
2011	\$108.00
2012	\$112.00
2013	\$115.00
2014	\$119.00
2015+	Adjusted Annually to reflect Medical Portion of CPI

The City provides former Encinitas Fire Protection District employees with a contribution equal to the lesser of the actual premium cost for coverage or 100% of the PEMCHA Southern California average premium as follows:

	Retiree Only	Retiree Plus Spouse	Retiree Plus Family
Non- Medicare (Basic)			
2013	\$624.66	\$1,249.32	\$1,624.11
2014	\$557.26	\$1,114.51	\$1,448.87
Medicare			
2013	\$294.45	\$588.89	\$883.34
2014	\$297.87	\$595.73	\$893.60

Premium Rates

The City participates in the CalPERS Health Program, a community-rated program for its medical coverage. The following tables summarize the 2013 and 2014 monthly health premiums paid by the City on behalf of retirees for the primary health plans in which the retirees are enrolled. All premiums are effective for the calendar year.

2013 Other So. Cal. Region (unless noted)	Kaiser	BS HMO	BS NVP HMO	PERS Care	PERS Choice	PERS Choice OOS
Retiree Only	\$558.95	\$643.93	\$550.03	\$992.61	\$611.30	\$754.21
Retiree Plus Spouse	\$1,117.90	\$1,287.86	\$1,100.06	\$1,985.22	\$1,222.60	\$1,508.42
Retiree Only- Medicare	\$288.37	\$261.32	\$261.32	\$370.43	\$325.74	\$325.74
Retiree Plus Spouse – Medicare	\$576.74	\$522.64	\$522.64	\$740.86	\$651.48	\$651.48

Continuing Plans 2014 Other So. Cal. Region (unless noted)	Kaiser	BS HMO	BS NVP HMO	PERS Care	PERS Choice	PERS Choice OOS
Retiree Only	\$602.79	\$543.21	\$457.17	\$638.22	\$612.25	\$706.40
Retiree Plus Spouse	\$1,205.58	\$1,086.42	\$914.34	\$1,276.44	\$1,224.50	\$1,412.80
Retiree Only- Medicare	\$294.97	\$298.21	\$298.21	\$327.36	\$307.23	\$307.23
Retiree Plus Spouse – Medicare	\$589.94	\$596.42	\$596.42	\$654.72	\$614.46	\$614.46

New Plans 2014 Other So. Cal. Region (unless noted)	Sharp HMO	UHC HMO	Anthem HMO Select	Anthem HMO Traditional	Health Net Salud	Health Net Smart Care
Retiree Only	\$538.59	\$521.01	\$536.99	\$592.20	\$489.82	\$568.51
Retiree Plus Spouse	\$1,077.18	\$1,042.02	\$1,073.98	\$1,184.40	\$979.64	\$1,137.02
Retiree Only- Medicare	\$306.51	\$193.33	\$341.12	\$341.12	\$261.24	\$261.24
Retiree Plus Spouse – Medicare	\$613.02	\$386.66	\$682.24	\$682.24	\$522.48	\$522.48

OOS = Out-of-State

SECTION V. VALUATION DATA

The valuation was based on the census furnished to us by the City. The following tables display the age distribution for retirees and the age/service distribution for active employees as of the Measurement Date.

Age Distribution of Eligible Retired Participants & Beneficiaries

Age	Miscellaneous			Safety			Full	MRC	Total
	Full	MRC	Total	Full	MRC	Total			
<50	0	0	0	1	0	1	1	0	1
50-54	0	0	0	1	0	1	1	0	1
55-59	2	3	5	8	0	8	10	3	13
60-64	0	8	8	11	0	11	11	8	19
65-69	1	4	5	11	0	11	12	4	16
70-74	0	4	4	9	0	9	9	4	13
75-79	2	2	4	4	0	4	6	2	8
80+	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>0</u>	<u>2</u>	<u>3</u>	<u>1</u>	<u>4</u>
Total:	6	22	28	47	0	47	53	22	75
Average Age:	70.7	66.8	67.6	66.5	NA	66.5	67.0	66.8	66.9
Average Retirement Age:	58.0	62.2	61.2	54.5	NA	54.5	54.9	62.2	57.0

Age/Service Distribution of All Active Benefit Eligible Employees

Age	Service							Total	Full Benefit	PEMCHA MRC
	0-4	5-9	10-14	15-19	20-24	25-29	30-34			
20-24	0							0	0	0
25-29	10							10	0	10
30-34	17	11	2					30	0	30
35-39	10	11	9					30	0	30
40-44	6	6	10	8	0	1		31	1	30
45-49	8	8	8	1	4	0		29	3	26
50-54	6	8	7	5	7	9		42	9	33
55-59	3	6	4	3	2	5		23	2	21
60-64	0	1	0	5	2	0	0	8	0	8
65-69	0	0	3	0	2	1	0	6	0	6
70+	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>1</u>
Total:	60	52	43	22	17	16	0	210	15	195
Average Age:								45.6	51.7	45.1
Average Service:								10.4	25.9	9.2
Average Pay:								\$83,842	\$98,349	\$82,726

Age/Service Distribution of Benefit Eligible Safety Employees

Age	Service							Total	Full PEMCHA	
	0-4	5-9	10-14	15-19	20-24	25-29	30-34		Benefit	MRC
20-24	0							0	0	0
25-29	4							4	0	4
30-34	7	3						10	0	10
35-39	2	5	4					11	0	11
40-44	2	2	4	5				13	1	12
45-49	0	1	2	0	3			6	1	5
50-54	0	1	0	2	0	8		11	8	3
55-59	0	1	0	0	0	2		3	2	1
60-64	0	0	0	0	0	0	0	0	0	0
65-69	0	0	0	0	0	0	0	0	0	0
70+	0	0	0	0	0	0	0	0	0	0
Total:	15	13	10	7	3	10	0	58	12	46
Average Age:								41.9	52.9	39.0
Average Service:								12.0	26.9	8.1
Average Pay:								\$88,401	\$102,398	\$84,750

Age/Service Distribution of Benefit Eligible Miscellaneous Employees

Age	Service							Total	Full PEMCHA	
	0-4	5-9	10-14	15-19	20-24	25-29	30-34		Benefit	MRC
20-24	0							0	0	0
25-29	6							6	0	6
30-34	10	8	2					20	0	20
35-39	8	6	5	0				19	0	19
40-44	4	4	6	3	0	1		18	0	18
45-49	8	7	6	1	1	0		23	2	21
50-54	6	7	7	3	7	1		31	1	30
55-59	3	5	4	3	2	3	0	20	0	20
60-64	0	1	0	5	2	0	0	8	0	8
65-69	0	0	3	0	2	1	0	6	0	6
70+	0	1	0	0	0	0	0	1	0	1
Total:	45	39	33	15	14	6	0	152	3	149
Average Age:								46.9	47.0	47.0
Average Service:								10.3	21.9	9.6
Average Pay:								\$82,102	\$82,153	\$82,101

SECTION VI. ACTUARIAL ASSUMPTIONS AND METHODS

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

Fiscal Year: July 1st to June 30th

Measurement Date: June 30, 2013

Fiscal Years Covered: FY2014/2015 and FY2015/2016

Discount Rate: 7.61% per annum. This discount rate assumes the City continues to fully fund for its retiree health benefits through the California Employers' Retiree Benefit Trust (CERBT) under its investment allocation strategy 1. The 7.61% reflects the CERBT published median interest rate for strategy 1 without any additional margin for adverse deviation.

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

Inflation: 2.8% per annum consistent with the most recent CalPERS pension plan study.

[The prior valuation used 3%]

Payroll Increases: 3.0% per annum, in aggregate with the most recent CalPERS pension plan study.

[The prior valuation used 3.25%]

Salary Increases: Merit increases from the most recent CalPERS pension plan study using the average pay increase based on employee's date of hire. The benefits are not payroll related but each individual's projected cost is allocated over their lifetime as a level-percentage of pay.

Pre-retirement Turnover: According to the termination rates under the CalPERS pension plan updated to reflect the most recent experience study. Sample rates for Miscellaneous employees are as follows:

Service	Entry Age			
	20	30	40	50
0	17.42%	16.06%	14.68%	13.32%
5	8.68%	7.11%	5.54%	0.97%
10	6.68%	5.07%	0.71%	0.38%
15	5.03%	3.47%	0.23%	0.04%
20	3.70%	0.21%	0.05%	0.01%
25	2.29%	0.05%	0.01%	0.01%
30	0.05%	0.01%	0.01%	0.01%

Sample rates for Firefighter employees are as follows:

Service	Entry Age			
	20	30	40	50
0	9.5%	9.5%	9.5%	9.5%
5	2.6%	2.6%	2.6%	1.0%
10	0.9%	0.9%	0.3%	0.3%
15	0.8%	0.8%	0.2%	0.2%
20	0.7%	0.2%	0.2%	0.2%
25	0.6%	0.1%	0.1%	0.1%
30	0.1%	0.1%	0.1%	0.1%

Pre-retirement Mortality:

According to the pre-retirement mortality rates under the CalPERS pension plan updated to reflect the most recent experience study. Sample deaths per 1,000 employees applicable to Miscellaneous employees are as follows:

Age	Males	Females
25	0.5	0.3
30	0.5	0.4
35	0.7	0.5
40	0.9	0.7
45	1.2	0.9
50	1.8	1.3
55	2.6	1.8
60	4.0	2.7

Sample deaths per 1,000 employees applicable to Firefighter employees are as follows:

Age	Males	Females
25	0.6	0.3
30	0.6	0.5
35	0.8	0.6
40	1.0	0.8
45	1.3	1.1
50	1.9	1.4
55	2.8	1.9
60	4.1	2.8

Post-retirement Mortality: According to the post-retirement mortality rates under the CalPERS pension plan updated to reflect the most recent experience study. Sample deaths per 1,000 employees applicable to Miscellaneous, Fire and Police retirees are as follows:

Age	Males	Females
55	4.7	2.4
60	7.2	4.3
65	10.7	7.8
70	16.8	12.4
75	30.8	20.7
80	52.7	37.5
85	97.8	70.1
90	167.5	124.0

Sample deaths per 1,000 employees applicable to non-industrial disabled retirees are as follows:

Age	Males	Females
55	19.4	15.8
60	22.9	16.3
65	31.7	19.7
70	38.7	30.2
75	60.0	39.2
80	83.9	55.6
85	140.4	95.8
90	215.5	149.5

Sample deaths per 1,000 employees applicable to industrial disabled retirees are as follows:

Age	Males	Females
55	5.6	5.5
60	7.8	8.0
65	13.9	11.8
70	22.4	17.2
75	35.9	26.7
80	69.3	45.3
85	118.0	80.2
90	165.75	137.8

Disability Rates: According to the disability rates under the CalPERS pension plan updated to reflect the most recent experience study. Sample industrial disabilities per 1,000 employees:

Age	Miscellaneous	Firefighter
25	0.0	1.2
30	0.0	2.5
35	0.0	3.7
40	0.0	4.9
45	0.0	6.1
50	0.0	7.4
55	0.0	72.1

Retirement Age:

According to the retirement rates under the CalPERS Pension Plan. The percentage refers to the probability that an active employee who has reached the stated age will retire within the following year.

Sample rates for Miscellaneous members are as follows:

Age	Service at Retirement				
	15	20	25	30	35
50	4.3%	5.0%	5.8%	6.5%	7.3%
51-52	3.4%	4.0%	4.6%	5.2%	5.8%
53	4.3%	5.0%	5.8%	6.5%	7.3%
54	6.8%	8.0%	9.2%	10.4%	11.6%
55	14.0%	16.5%	19.0%	21.5%	23.9%
56	9.4%	11.0%	12.7%	14.3%	16.0%
57	9.8%	11.5%	13.2%	15.0%	16.7%
58	11.5%	13.5%	15.5%	17.6%	19.6%
59	12.8%	15.0%	17.3%	19.5%	21.8%
60	13.6%	16.0%	18.4%	20.8%	23.2%
61	13.2%	15.5%	17.8%	20.2%	22.5%
62	19.1%	22.5%	25.9%	29.3%	32.6%
63-64	16.6%	19.5%	22.4%	25.4%	28.3%
65	22.5%	26.5%	30.5%	34.5%	38.4%
66-69	16.6%	19.5%	22.4%	25.4%	28.3%
70-74	19.9%	23.4%	26.9%	30.4%	33.9%
75	100.0%	100.0%	100.0%	100.0%	100.0%

Sample retirement rates for Firefighter employees are as follows:

Age	Service at Retirement				
	15	20	25	30	35
50	1.2%	1.8%	2.8%	3.3%	3.3%
51	0.8%	1.2%	1.9%	2.2%	2.2%
52	1.8%	2.7%	4.2%	5.0%	5.0%
53	4.3%	6.2%	9.8%	11.4%	11.4%
54	5.7%	8.3%	13.1%	15.2%	15.2%
55	9.2%	13.4%	21.1%	24.6%	24.6%
56	8.1%	11.8%	18.7%	21.8%	21.8%
57	10.0%	14.6%	23.0%	26.8%	26.8%
58	8.1%	11.9%	18.7%	21.9%	21.9%
59	7.8%	11.3%	17.8%	20.8%	20.8%
60	11.7%	17.0%	26.7%	31.2%	31.2%
61	7.8%	11.3%	17.8%	20.8%	20.8%
62	9.8%	14.1%	22.3%	26.0%	26.0%
63	7.8%	11.3%	17.8%	20.8%	20.8%
64	7.8%	11.3%	17.8%	20.8%	20.8%
65	100.0%	100.0%	100.0%	100.0%	100.0%

Participation Rates: 100% of future retirees who are eligible to receive full benefits are assumed to elect coverage at retirement.

50% of future retirees who are eligible for the PEMCHA MRC are assumed to elect coverage at retirement. 20% of retirees waiving coverage are assumed to elect coverage at age 65. Retirees currently waiving coverage are assumed to continue to waive coverage in the future.

[The prior valuation assumed 20% of retirees waiving coverage are assumed to elect coverage at age 65]

Actual medical plan coverage is used for current retirees and for current active employees not waiving coverage. For active employees waiving coverage, a weighted average premium is assumed.

Spouse Coverage: 80% of future retirees are assumed to elect coverage for their spouse. Actual spousal coverage is used for current retirees. This percentage is reduced by 50% for employees only eligible for the MRC at retirement. Male spouses are assumed to be 3 years older than female spouses. Actual spouse age is used for current retirees.

[The prior valuation assumed 80% elect spouse coverage for employees only eligible for the MRC]

Dependent Coverage: 25% of future retirees with full benefits are assumed to elect family coverage to age 65; dependent coverage is assumed to end at the retiree's attainment of age 65.

Claim Cost Development: The valuation claim costs are based on the premiums paid for medical insurance coverage. The City participates in the CalPERS Health Plan, a community rated plan. The valuation assumes the City is exempt from the valuation of any medical plan rate subsidy.

Medical Trend Rates: Medical costs are adjusted in future years by the following trends:

Year	PPO	HMO
2015	7.5%	7.0%
2016	7.0%	6.5%
2017	6.5%	6.0%
2018	6.0%	5.5%
2019	5.5%	5.0%
2020+	5.0%	5.0%

[The prior valuation assumed 1% lower initial trend rates]

Medicare Participation: 100%

Minimum Contribution: The CalPERS minimum required contribution is assumed to increase 4% per year.

CalPERS Service: Actual CalPERS Service as reported by CERBT was included for purposes of applying the CalPERS demographic tables and determining eligibility for benefits.

Actuarial Cost Method: The actuarial cost method used to determine the allocation of the retiree health actuarial liability to the past (accrued), current and future periods is the Entry Age Normal (EAN) cost method. The EAN cost method is a projected benefit cost method which means the “cost” is based on the projected benefit expected to be paid at retirement.

The EAN normal cost equals the level annual amount of contribution from the employee’s date of hire (entry date) to their retirement date that is sufficient to fund the projected benefit. For plans unrelated to pay, the normal cost is calculated to remain level in dollars; for pay-related plans the normal cost is calculated to remain level as a percentage of pay. The City has elected to determine the EAN normal cost as a level percentage of pay. The EAN actuarial accrued liability equals the present value of all future benefits for retired and current employees and their beneficiaries less the portion expected to be funded by future normal costs.

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

Actuarial Value of Assets: Asset gains and losses are recognized over 5 years subject to an 80% and 120% of market value corridor.

Amortization of UAAL: The unfunded actuarial accrued liability is being amortized over 26 years using the level-percentage of pay method on a closed-basis.

SECTION VII. ACTUARIAL CERTIFICATION

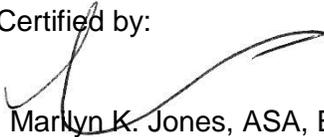
The results set forth in this report are based on the actuarial valuation of the retiree health benefit plans of the City of Encinitas (the "City") as of June 30, 2013.

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 City. We also made use of plan information, premium information, and enrollment information provided to us by the City.

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: 4/29/2014

SECTION VIII. DEFINITIONS

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.