RAEL & LETSON
CONSULTANTS AND ACTUARIES

ACTUARIAL VALUATION OF POSTRETIREMENT WELFARE BENEFITS UNDER GASB 43/45

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

AS OF JUNE 30, 2007

NOVEMBER 2007

November 2, 2007

Mr. Ronald Root
Vice Chancellor, Administrative Services
San Jose/Evergreen Community College District
4750 San Felipe Road
San Jose, California 95135

Re: GASB 43/45 Actuarial Valuation of Postretirement Welfare Benefits as of June 30, 2007

Dear Mr. Root:

We are pleased to present the above captioned report. Note that because the District's annual revenue is between $10 and $99 million, GASB identifies it as a "Phase 2" postretirement welfare benefit plan sponsor (also known as an Other Postemployment Benefit or OPEB plan sponsor) that is not required to comply with GASB 45 until its **June 30, 2009** financial statement. Also, if any District assets are irrevocably dedicated to the payment of retiree welfare benefits, then the retiree welfare plan itself will have a financial statement that will need to comply with GASB 43 by **June 30, 2008**. This report presents the disclosure items that would be needed if the District were complying with GASB 45 as of June 30, 2007. It is based on active participant and eligible retiree data provided by the District and on the methods and assumptions detailed in Section II.

We wish to thank you, your staff and DA Financial Group for providing us with the information necessary for us to complete this report. Please let us know if you need any further information regarding our findings.

Very truly yours,

RAEL & LETSON

By:

Jean C. Vergara, A.S.A., M.A.A.A.

Wang Li, A.S.A., M.A.A.A.

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INTRODUCTION AND ACTUARIAL CERTIFICATION

We have been retained by the San Jose/Evergreen Community College District to conduct an actuarial valuation of the District's postretirement welfare benefit assets, liability, annual cost, and accrual status. Our report follows the requirements adopted by the Governmental Accounting Standards Board (GASB) in its Statement No. 43 "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" and Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." The required disclosure items are formatted as follows:

- **Section I** discusses the calculation of GASB 43/45 disclosure items and presents such items for the 2007/2008 financial statements in *Exhibit 1A*. This exhibit provides the Actuarial Accrued Liability and Funded Status as of June 30, 2007, the Annual Required Contribution (ARC) and Annual OPEB Cost for 2007/2008, and an estimated reconciliation of Net OPEB Obligation for 2007/2008. A projected 30-year cashflow is presented as a graph in *Exhibit 1B* and as a table in *Exhibit 1C*. *Exhibit 1D* is a graph providing a 30-year comparison of ARC and cashflow, while *Exhibit 1E* shows a 30-year projection of liability and assets as a table.

- **Section II** shows the demographic, economic, per-capita cost, and other assumptions used in the calculation of the postretirement welfare benefit liability.

- **Section III** summarizes the participant data used in the valuation.

- **Section IV** presents a summary of the principal provisions of the Plan valued.

- **Section V** contains answers to questions usually asked by auditors.

Actuarial computations under GASB 43/45 are for purposes of fulfilling certain accounting requirements for public sector postretirement welfare benefit plans and their sponsoring employers. The calculations reported have been made on a basis consistent with our understanding of GASB 43/45. Determinations for purposes other than meeting the financial accounting requirements of GASB 43/45 may differ significantly from the results presented in this report.

INTRODUCTION AND ACTUARIAL CERTIFICATION *(CONTINUED)*

The calculation of an accounting liability and annual cost does not, in and of itself, imply that there is any legal liability to provide the benefits valued. Nor is there any implication that the sponsor is required to implement a funding policy to satisfy the projected expense.

We, Jean C. Vergara and Wang Li, are Consulting Actuaries for Rael & Letson. We are Associates of the Society of Actuaries and meet the Qualifications Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. To the best of our knowledge, this report is complete and accurate and in our opinion presents the information necessary to comply with GASB Statements 43 and 45.

Jean C. Vergara, A.S.A., M.A.A.A.

Wang Li, A.S.A., M.A.A.A.

SECTION I VALUATION RESULTS
HIGHLIGHTS OF THE VALUATION

Exhibit 1A on pages 6-8 provides all the numbers needed for disclosure in the financial statement of the Plan if there are any assets irrevocably dedicated for the payment of retiree welfare benefits (per GASB 43), and that of the sponsor (per GASB 45). Components are as follows:

- **Part A** shows the counts for census data captured as of July 31, 2007. Of the 380 covered participants, 316 are current retirees or surviving spouses. "Other fully eligible" participants are those active employees who have the minimum age and years of service needed to retire with benefits as of the valuation date. Participants hired after the determination dates provided in Section IV have been excluded from our valuation because they are not eligible for retiree health benefits through the District.

- **Part B** is the total actuarial present value of benefits (APVB), including both accrued and not-yet-accrued portions. If the District were extremely generous and wanted to ensure benefit security, it could set aside $48.2 million into a retiree health account and all grandfathered actives and retirees would most likely be taken care of if actual experience does not deviate significantly from the valuation assumption.

- **Part C** shows the accrued portion of the APVB as **$47.7 million**. As described in the footnote on page 6, we used the "Entry Age Normal" cost method for this valuation. This is the same method employed for the CalSTRS and CalPERS pension valuations and is one of the GASB-allowed methods often employed by public entities that fund benefits as a percent of payroll.

The reconciliation of liability over the prior valuation is shown below. New valuation assumptions include increased trend rates and modification to how per-capita costs are developed. A more detailed description of these changes are provided in items 3 and 4 of Section V, Notes to the Auditor.

AAL at May 1, 2006:	$ 46,231,982
Effect of benefits earned and other changes:	2,851,018
Effect of new actuarial assumptions:	(1,363,500)
AAL at June 30, 2007:	$ 47,719,500

SECTION I VALUATION RESULTS
HIGHLIGHTS OF THE VALUATION *(CONTINUED)*

- **Part D** expresses the Plan's Funded Status as a ratio of assets to liability and as a ratio of unfunded liability to payroll. These will be used by the auditor to construct a historical "Schedule of Funding Progress" for the Plan's financial statement notes (per GASB 43), if the District were to pre-fund through an irrevocable trust.

- The "Annual Required Contribution" (ARC) in **Part E** will be used by the auditor to construct a historical "Schedule of Employer Contributions" for the Plan's financial statement notes (per GASB 43), although the District is not required to contribute this or any amount.

  Part E also shows how amounts are added and subtracted from the ARC to yield the Annual OPEB Cost, which the auditor will use to reconcile the Net OPEB Obligation in the District's financial statement notes (per GASB 45).

- **Part F** provides the reconciliation of Net OPEB Obligation (NOO) over the prior year (which doesn't apply in this first hypothetical year of compliance) and an estimated reconciliation for the current year. That estimate cannot be finalized until the actual Plan year 2007/2008 benefit payments and contributions are known. As mentioned above, the auditor will show the NOO reconciliation in the District's financial statement notes (per GASB 45).

Exhibit 1B graphs the first thirty years of the cashflow projection that underlies our liability calculations. This graph makes a distinction between two types of Plan subsidy:

- **Cash Subsidy:** In general, the District pays 100% of the premium for EAP, medical and prescription drug coverage (except the District's subsidy for those of Medicare eligible age is limited to plan(s) that require Medicare Part D election and assignment of Medicare Parts A and B) for the retiree and his/her spouse. Retirees must contribute any shortfall, if any, between this subsidy and their actual premiums for medical, dental, and vision.

SECTION I VALUATION RESULTS
HIGHLIGHTS OF THE VALUATION *(CONTINUED)*

- **Implicit Subsidy:** Kaiser combines the active and retiree under-age-65 experience, and Blue Cross combines active and all retiree experience in their premium development. In this situation we are required by GASB 43/45 to estimate the premium that would be charged to retirees if they were rated alone, and to reflect any difference between such retiree-only cost and the actual premium as an "implicit subsidy of the retirees by the actives".

Exhibit 1C is a table detailing each of the first ten years of cash flow activity and then every five years thereafter until the thirtieth year. The table shows that over the next ten years the District's cash subsidy will grow to almost $3.1 million by 2015 and then start decreasing. The shortfall to premium that must be picked up by retirees begins at about $0.4 million and almost doubles to $0.7 million by the tenth year. The implicit subsidy will grow from $0.1 to $0.3 million over the same period. As explained in the first footnote on page 10, we strongly advise caution when attempting to use this for the District's short-term financial planning.

Exhibit 1D compares the expected District outlays with and without prefunding by charting the Annual Required Contributions (ARCs) versus "pay-as-you-go" amounts (Plan cash and implicit subsidies) over the next thirty years. This graph reflects activity only for current retiree and active participants in the grandfathered group, not anyone hired after the determination dates for retiree health benefit eligibility. Note that the District's "pay-as-you-go" costs will soon exceed "30-year / level dollar" ARC contributions (current year "pay-as-you-go" costs already exceed the "30-year / level percent-of-pay" ARC contributions).

Exhibits 1E (i) and 1E(ii) are two tabular 30-year projections of AAL and assets. The District requested that the ARC be calculated on a 30-year amortization of the UAAL. However, because the cutoff date for the grandfathered eligible group was so long ago, the District is in a rare position where its "pay-as-you-go" costs will soon exceed any assets accumulated from ARC contributions based on amortization periods of more than 28 years (or 20 years for level percent-of-pay ARCs). When this happens the retiree health fund will need to "borrow" from the District's general assets to pay out retiree benefit costs.

SECTION I VALUATION RESULTS

EXHIBIT 1A: SUMMARY OF VALUATION RESULTS

	CERTIFICATED	CLASSIFIED	ADMINISTRATIVE	TOTAL
A. **Participant Count** as of July 31, 2007[1]				
• Current retirees and surviving spouses	200	116	0	316
• Other participants fully eligible for benefits	34	8	8	50
• Other participants not yet fully eligible for benefits	2	11	1	14
Total Count	236	135	9	380
B. **Actuarial Present Value of Benefits** (APVB) at June 30, 2007				
• Current retirees	$ 24,322,500	$ 12,876,700	$ 0	$ 37,199,200
• Other participants fully eligible for benefits	5,795,100	1,304,500	1,462,000	8,561,600
• Other participants not yet fully eligible for benefits	377,000	1,923,400	161,700	2,462,100
Total APVB	$ 30,494,600	$ 16,104,600	$ 1,623,700	$ 48,222,900
C. **Actuarial Accrued Liability** (AAL) at June 30, 2007				
• Current retirees	$ 24,322,500	$ 12,876,700	$ 0	$ 37,199,200
• Other participants fully eligible for benefits	5,582,000	1,268,100	1,403,400	8,253,500
• Other participants not yet fully eligible for benefits	347,400	1,766,600	152,800	2,266,800
Total AAL[2,3]	$ 30,251,900	$ 15,911,400	$ 1,556,200	**$ 47,719,500**

1 Results for this June 30, 2007 valuation were projected from a census captured as of July 31, 2007. Current retirees were identified only as receiving CalSTRS (certificated) or CalPERS (Classified) pension benefits (i.e., administrative retirees were not separately identified).

2 AAL is the portion of APVB that is attributed to actives' service to date by the chosen actuarial cost method. GASB 43/45 allows for seven cost methods, including projected Unit Credit (as required for corporate and multiemployer retiree welfare calculations) and Entry Age Normal (as commonly used for governmental pension calculations). For this valuation we have used the Entry Age Normal method, which spreads cost from age at hire to expected age at retirement.

3 The APVB and AAL shown above have been offset by projected retiree contributions. The gross AAL before such offset is $58,743,000, of which 81% is due to Plan payments and 19% is due to retiree contributions. Also note that had we increase our assumed health care trend rates by one percent, the total AAL would have increased from $47,719,500 to $52,958,100.

SECTION I VALUATION RESULTS

EXHIBIT 1A: SUMMARY OF VALUATION RESULTS *(CONTINUED)*

	Total with Level Dollar Amortization	Total with Level % of Pay Amortization
D. **Funded Status** at June 30, 2007		
Actuarial Value of Assets	$ 0	$ 0
Unfunded Actuarial Accrued Liability (UAAL)	$ 47,719,500	$ 47,719,500
Funded Ratio	0%	0%
Covered Payroll	$ 63,192,700	$ 63,192,700
UAAL as a Percentage of Covered Payroll	76%	76%
E. **Annual Required Contribution** (ARC) and **Annual OPEB Cost** (AOC) for 2007/2008[1]		
Normal Cost for 2007/2008	$ 99,800	$ 99,800
Amortization of UAAL as of June 30, 2007[2]	3,029,400	1,992,600
Total ARC for 2007/2008	$ 3,129,200	$ 2,092,400
Interest on June 30, 2007 Net OPEB Obligation	0	0
(Amortization of June 30, 2007 NOO)[2]	0	0
Total AOC for 2007/2008	$ 3,129,200	$ 2,092,400
ARC as a Percentage of Covered Payroll	5.0%	3.3%

1 Despite the name, there is no requirement to actually contribute the ARC or any other amount. Future plan financial statement notes must simply show a "Schedule of Employer Contributions" with the ARC and the percentage of it that was actually contributed (if any). The ARC calculated above is noted as being applicable to the year following the current valuation date, but if a new valuation is not performed next year then this same ARC may be considered applicable to each of the next two years. In this manner, the Schedule of Employer Contributions can show a continuous annual history of ARC and actual contribution amounts.

2 GASB 43/45 allows for an amortization method of either level dollar (as for a mortgage) or level percent-of-pay, period of up to 30 years (but no less than 10 years if the AAL decreases due to a new cost or asset value method), and basis of either rolling (no annual reduction in period) or static. The amortizations used here are level dollar and level percent-of-pay over a rolling 30 years

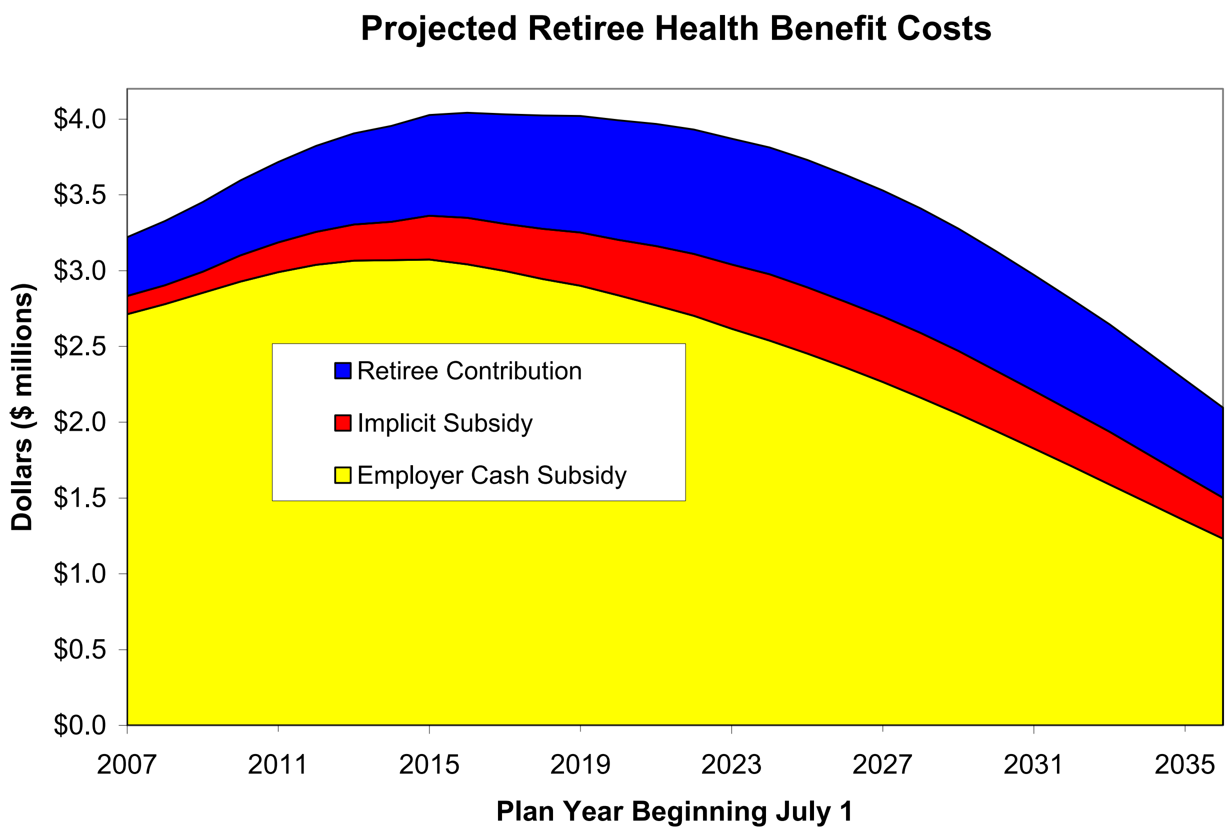
SECTION I VALUATION RESULTS

EXHIBIT 1A: SUMMARY OF VALUATION RESULTS *(CONTINUED)*

	Total with Level Dollar Amortization	Total with Level % of Pay Amortization
F. **Net OPEB Obligation** (NOO)		
Actual Reconciliation over 2006/2007 and *Estimated* Reconciliations over 2007/2008[1]		
NOO at June 30, 2006	n/a	n/a
(Benefit Payments paid outside of a trust in 2006/2007)	n/a	n/a
(Contributions to a trust in 2006/2007)	n/a	n/a
Annual OPEB Cost (AOC) for 2006/2007	$ 0	$ 0
NOO at June 30, 2007		
(*Estimated* Benefit Payments)	(2,832,500)	(2,832,500)
(*Estimated* Contributions to a trust in 2007/2008)	0	0
Annual OPEB Cost (AOC) for 2007/2008	3,129,200	2,092,400
Estimated NOO at June 30, 2008	$ 296,700	$ (740,100)

1 NOO is generally the cumulative excess of prior ARC over benefit payments (if unfunded) or trust contributions (if funded). In practice, before the ARC is added to the NOO each year it is adjusted to become the Annual OPEB Cost (AOC) by adding NOO interest and subtracting an NOO amortization. For this exhibit we have assumed that GASB 43/45 will be adopted for 2007/2008, so that NOO on the current valuation date is zero.

SECTION I VALUATION RESULTS
EXHIBIT 1B: PROJECTED CASHFLOW GRAPH



SECTION I VALUATION RESULTS

EXHIBIT 1C: PROJECTED CASHFLOW TABLE [1]

Plan Year beginning July 1,	Retiree Family Counts [2] Current	Future	Both	District Cash Subsidy [3]	Retiree Contribution	Total Premium	Plan Implicit Subsidy [4]	Gross Benefit [5]	Retiree Contribution Ratio
2007	316	0	316	$ 2,711,900	$ 388,000	$ 3,099,900	$ 120,500	$ 3,220,400	12%
2008	309	12	321	2,779,200	424,000	3,203,200	124,600	3,327,800	13%
2009	301	19	320	2,853,600	459,600	3,313,200	140,300	3,453,500	13%
2010	292	24	316	2,928,200	495,500	3,423,700	172,500	3,596,200	14%
2011	284	30	314	2,990,300	531,500	3,521,800	195,200	3,717,000	14%
2012	274	36	310	3,039,400	566,900	3,606,300	216,600	3,822,900	15%
2013	264	40	304	3,066,000	601,200	3,667,200	238,900	3,906,100	15%
2014	253	45	298	3,068,900	633,000	3,701,900	254,400	3,956,300	16%
2015	243	49	292	3,073,800	664,400	3,738,200	288,300	4,026,500	17%
2016	233	52	285	3,041,300	694,000	3,735,300	307,500	4,042,800	17%
2021	177	56	233	2,770,300	806,800	3,577,100	391,200	3,968,300	20%
2026	122	53	175	2,361,800	838,500	3,200,300	433,700	3,634,000	23%
2031	73	46	119	1,826,400	765,900	2,592,300	380,400	2,972,700	26%
2036	36	36	72	1,231,100	594,700	1,825,800	270,800	2,096,600	28%

1 Because projected benefit payments are dependent upon many different assumptions about future claims, there can be a broad range of reasonable results. This illustration is based on a single "best estimate" set of actuarial assumptions used for our liability calculations and should be used with care when applied to financial planning. Small deviations between our best-estimate assumptions and actual experience (especially in regard to health care cost trend rates, retirement rates, and participation rates) could produce significantly different projected cash flows.

2 Counts do not include spouses of living retirees (though spouse benefit amounts are in the other portions of this exhibit). "Current" counts and amounts are for participants in receipt of benefits as of the valuation date. "Future" counts and amounts are for participants who are actively employed as of the valuation date and who are projected to subsequently begin receipt of benefits.

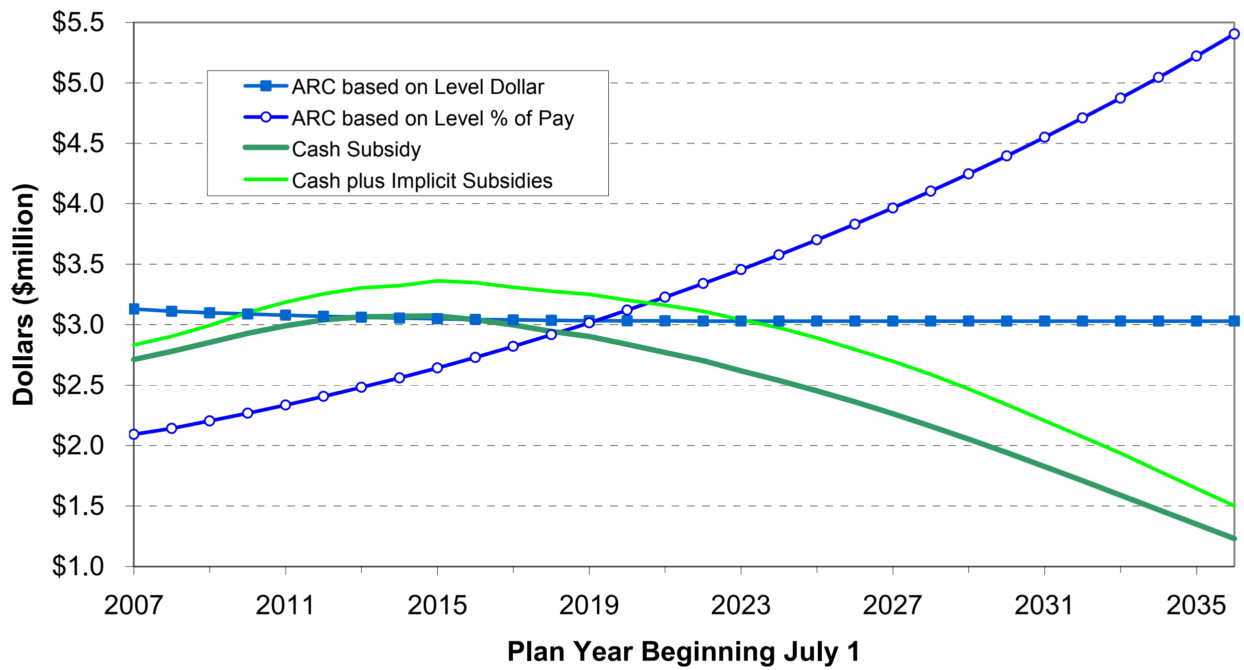
3 For participants of Medicare eligible age, the *District Cash Subsidy* is the premium for the plan(s) that requires Medicare Part D coverage and assignment of Medicare Parts A&B to the provider. Retirees must contribute any shortfall of their subsidy to their actual premiums for medical, dental, and vision.

4 Kaiser combines active and retiree under-age-65 experience and Blue Cross combines active and all retiree experience in their premium rate development. In this situation we are required by GASB 43/45 to estimate the premium that would be charged to retirees if they were rated alone, and to reflect any difference between such retiree-only cost and the actual premium as a *Plan Implicit Subsidy*. The sum of Premium and Implicit Subsidy is shown above as the *Gross Benefit*, and the final column is the ratio of Retiree Contribution over Gross Benefit.

5 Includes the cost for dental and/or vision coverage that is fully self-paid by the retiree.

SECTION I VALUATION RESULTS
EXHIBIT 1D: PREFUNDING COMPARISON GRAPH

No Prefunding (Pay as You Go) Versus Prefunding with Annual Required Contribution (ARC)



SECTION I VALUATION RESULTS

EXHIBIT 1E(i): PROJECTED LIABILITY TABLE BASED ON LEVEL DOLLAR ARC

Plan Year Beginning July 1,	Actuarial Accrued Liability (AAL)				Virtual Assets and Unfunded AAL (UAAL)			
	Annual District Subsidies	Annual Normal Cost [1]	Annual Interest Cost [2]	AAL at Beginning of Year [3]	Annual Trust Contribution = ARC [4] % of Payroll	Annual Trust Contribution = ARC [4] Dollars	Virtual Assets at Beginning of Year [5]	UAAL at Beginning of Year [6]
2007	$ 2,832,400	$ 99,800	$ 2,318,700	$ 47,719,500	5.0%	$ 3,129,200	$ 0	$ 47,719,500
2008	2,903,800	80,500	2,296,600	47,305,600	4.8%	3,109,900	304,400	47,001,300
2009	2,993,900	68,800	2,268,500	46,778,900	4.6%	3,098,200	531,800	46,247,100
2010	3,100,700	59,500	2,233,300	46,122,300	4.4%	3,088,900	667,100	45,445,200
2011	3,185,500	49,900	2,191,300	45,314,400	4.2%	3,079,300	690,600	44,623,800
2012	3,256,000	40,800	2,142,700	44,370,100	4.1%	3,070,200	619,300	43,750,700
2013	3,304,900	32,500	2,087,800	43,297,600	3.9%	3,061,900	463,500	42,834,100
2014	3,323,300	24,900	2,028,500	42,113,000	3.8%	3,054,300	241,500	41,871,500
2015	3,362,100	18,900	1,964,200	40,843,100	3.7%	3,048,400	(17,800)	40,860,900
2016	3,348,800	13,800	1,895,600	39,464,100	3.5%	3,043,200	(335,700)	39,799,700
2021	3,161,500	1,900	1,520,500	31,861,800	3.0%	3,031,400	(1,781,100)	33,642,900
2026	2,795,500	200	1,110,600	23,474,900	2.5%	3,029,600	(2,310,100)	25,785,000
2031	2,206,800	0	718,300	15,334,700	2.1%	3,029,400	(421,400)	15,756,100
2036	1,501,900	0	397,800	8,594,200	1.8%	3,029,400	5,637,800	2,956,400
2037				7,490,100			7,490,100	0

1 Normal Cost is the annual increase in AAL due to the additional year of service earned by active participants.
2 Interest Cost is approximately a full year of 5.00% on AAL and Normal Cost, less a half-year of 5.00% on Cash and Implicit Subsidies.
3 AAL plus Interest Cost plus Normal Cost minus Cash and Implicit Subsidies equals the next year's AAL.
4 Here we have assumed a contribution equal to the GASB 43/45 Annual Required Contribution (ARC), which equals Normal Cost plus an amortization of the UAAL. For this projection we have used a “closed 30-year” amortization (i.e., the initial $3,029,400 is used in every year), whereas actual future valuation will use a “rolling 30-year” (recalculating the amortization amount based on that year's new UAAL)
5 Virtual Assets plus Contribution (with a year's interest on both) less Cash and Implicit Subsidies (with a half-year's interest) equal the next year's Virtual Assets.
6 UAAL equals the excess of AAL over Virtual Assets.

SECTION I VALUATION RESULTS

EXHIBIT 1E (ii): PROJECTED LIABILITY TABLE BASED ON LEVEL PERCENT-OF-PAY ARC

	Actuarial Accrued Liability (AAL)				Virtual Assets and Unfunded AAL (UAAL)			
					Annual Trust Contribution = ARC [4]			
Plan Year Beginning July 1,	Annual District Subsidies	Annual Normal Cost [1]	Annual Interest Cost [2]	AAL at Beginning of Year [3]	% of Payroll	Dollars	Virtual Assets at Beginning of Year [5]	UAAL at Beginning of Year [6]
2007	$ 2,832,400	$ 99,800	$ 2,318,700	$ 47,719,500	3.3%	$ 2,092,400	$ 0	$ 47,719,500
2008	2,903,800	80,500	2,296,600	47,305,600	3.3%	2,142,800	(758,100)	48,063,700
2009	2,993,900	68,800	2,268,500	46,778,900	3.3%	2,203,300	(1,574,700)	48,353,600
2010	3,100,700	59,500	2,233,300	46,122,300	3.2%	2,268,700	(2,461,800)	48,584,100
2011	3,185,500	49,900	2,191,300	45,314,400	3.2%	2,336,400	(3,435,100)	48,749,500
2012	3,256,000	40,800	2,142,700	44,370,100	3.2%	2,407,300	(4,473,900)	48,844,000
2013	3,304,900	32,500	2,087,800	43,297,600	3.2%	2,481,900	(5,563,600)	48,861,200
2014	3,323,300	24,900	2,028,500	42,113,000	3.2%	2,560,000	(6,681,300)	48,794,400
2015	3,362,100	18,900	1,964,200	40,843,100	3.2%	2,642,800	(7,793,300)	48,636,400
2016	3,348,800	13,800	1,895,600	39,464,100	3.2%	2,729,500	(8,915,500)	48,379,500
2021	3,161,500	1,900	1,520,500	31,861,800	3.2%	3,227,300	(13,448,300)	45,310,000
2026	2,795,500	200	1,110,600	23,474,900	3.2%	3,830,900	(14,832,800)	38,307,700
2031	2,206,800	0	718,300	15,334,700	3.2%	4,549,700	(10,372,200)	25,706,900
2036	1,501,900	0	397,800	8,594,200	3.2%	5,403,600	3,320,800	5,273,400
2037				7,490,100			7,490,100	0

1 Normal Cost is the annual increase in AAL due to the additional year of service earned by active participants.
2 Interest Cost is approximately a full year of 5.00% on AAL and Normal Cost, less a half-year of 5.00% on Cash and Implicit Subsidies.
3 AAL plus Interest Cost plus Normal Cost minus Cash and Implicit Subsidies equals the next year's AAL.
4 Here we have assumed a contribution equal to the GASB 43/45 Annual Required Contribution (ARC), which equals Normal Cost plus an amortization of the UAAL. For this projection we have used a "closed 30-year" amortization (i.e., the initial $1,992,600 is increased by 3.50% each year but otherwise not recalculated), whereas actual future valuation will use a "rolling 30-year" (recalculating the amortization amount based on that year's new UAAL)
5 Virtual Assets plus Contribution (with a year's interest on both) less Cash and Implicit Subsidies (with a half-year's interest) equal the next year's Virtual Assets.
6 UAAL equals the excess of AAL over Virtual Assets.

SECTION II ACTUARIAL ASSUMPTIONS AND METHODS
GENERAL INFORMATION

The Actuarial Accrued Liability (AAL) is equal to that portion of the Actuarial Present Value of Benefits deemed to have been earned to date, calculated using the Entry Age Normal actuarial cost method. For active employees, this method spreads cost uniformly from hire age to expected age at retirement. For the amortizations of Unfunded AAL and Net OPEB Obligation we show the "level dollar" and "level percent-of-pay" methods over a rolling 30 years.

The AAL resulting from our calculations and shown in this report are contingent upon a variety of assumptions about future events. We have grouped our valuation assumptions into the three exhibits described below. Note that actual experience is unlikely to exactly match these assumptions.

- Exhibit 2A: Demographic Assumptions – Mortality, turnover, disability, retirement, and other items that affect the number of people eligible to receive future retiree benefits and the type of coverage elected.
- Exhibit 2B: Economic Assumptions – Rates of discount, compensation increase (if applicable), health care trend, and self-pay increase.
- Exhibit 2C: Per-Capita Cost Assumptions – Current benefit costs and expenses as determined by historical experience and by future expectations for the Plan.

The Certificated[1] mortality, turnover, disability, and retirement tables in *Exhibit 2A* are from the June 30, 2003 CalSTRS pension valuation and are based on a study of experience for the four years ending June 30, 2003. The corresponding Classified[1] tables are from the June 30, 2005 CalPERS pension valuation and are based on a study of "non-industrial school employee" experience for the four years ending June 30, 2005. For every 10,000 active male Certificated participants age 40, we expect that in the next year 9 will die, 50 will terminate employment with no benefits, and 8 will become disabled. Likewise, for every 10,000 active male Classified participants age 40, we expect that in the next year 8 will die, 353 will terminate employment with no benefits, and 14 will become disabled. Upon attainment of the minimum age and service for CalSTRS (or CalPERS) pension retiree benefits, turnover rates cut out and retirement rates begin. A sample of retirement rates is shown in Exhibit 2A, as split by service years for Certificated and by entry age for Classified.

[1] Certificated demographic rates are applied to participants identified on the census eligible (or potentially eligible) for CalSTRS pension benefits. Likewise, Classified demographic rates are applied to participants identified on the census as eligible (or potentially eligible) for CalPERS pension benefits.

SECTION II ACTUARIAL ASSUMPTIONS AND METHODS
GENERAL INFORMATION *(CONTINUED)*

The future retiree participation, plan selection, and dependent assumptions at the end of Exhibit 2A are based on our study of the choices made by current retirees.

The discount rate at the beginning of *Exhibit 2B* is the expected long-term rate of return on District assets. The compensation increase rate of 3.50% was provided by the District. The remainder of the exhibit describes the anticipated future annual increases in per-capita benefit costs and self-pay rates.

In *Exhibit 2C* we have set the "net claims relative value factor" for ages 55 to 59 at a value of 1.000. The factors at all other ages are expressed relative to that base value factor. For example, the Kaiser factor at ages 60 to 64 is 1.150, which means that expected costs at those ages are 15.0% higher than expected costs for ages 55 to 59. The "net cost multiplier" is then the annual per-capita cost in Plan Year 2007/2008 (*i.e.*, prior to the application of the trend rates detailed in Exhibit 2B) at the base age range of 55 to 59.

SECTION II ACTUARIAL ASSUMPTIONS AND METHODS

EXHIBIT 2A: DEMOGRAPHIC ASSUMPTIONS

MORTALITY: Rates are from the June 30, 2003 pension valuation for CalSTRS (Certificated) and the June 30, 2005 for CalPERS (Classified)[1]. Note that for Certificated, the active rates are equal to retired rates with a two-year setback. Sample rates are as follows:

	CERTIFICATED						CLASSIFIED					
	ACTIVE		RETIRED		DISABLED[2]		ACTIVE		RETIRED		DISABLED	
AGE	MALE RATE	FEMALE RATE	MALE RATE	FEMALE RATE	MALE RATE	FEMALE RATE	MALE RATE	FEMALE RATE	MALE RATE	FEMALE RATE	MALE RATE	FEMALE RATE
20	0.03%	0.02%	0.04%	0.03%	2.50%	2.20%	0.02%	0.01%	0.05%	0.03%	0.73%	0.52%
30	0.07	0.03	0.07	0.03	2.50	2.20	0.04	0.02	0.08	0.03	0.77	0.58
40	0.09	0.05	0.09	0.06	2.50	2.20	0.08	0.05	0.10	0.07	0.87	0.64
50	0.16	0.10	0.19	0.12	2.50	2.20	0.16	0.10	0.25	0.14	1.46	1.13
60	0.44	0.26	0.56	0.34	2.50	2.20	0.31	0.23	0.72	0.44	2.87	1.88
70	1.45	0.97	1.80	1.18	2.85	2.20	0.63	0.50	2.14	1.28	4.67	3.02
80	4.09	2.90	5.02	3.78	7.55	4.39	1.28	1.11	6.26	3.88	9.48	6.51

1 Classified rates are for non-industrial school employees.

2 Certificated mortality rates for the first three years of disablement for males are 11.4%, 7.7%, and 6.2%, and for females are 6.0%, 3.8%, and 3.0% for all ages.

SECTION II ACTUARIAL ASSUMPTIONS AND METHODS

EXHIBIT 2A: DEMOGRAPHIC ASSUMPTIONS *(CONTINUED)*

TURNOVER[1]: Rates are from the June 30, 2003 pension valuation for CalSTRS (Certificated) and the June 30, 2005 for CalPERS (Classified)[2], Sample rates are as follows:

AGE	CERTIFICATED		CLASSIFIED	
	MALE RATE	FEMALE RATE	MALE RATE	FEMALE RATE
20	0.50%	0.60%	0.00%	0.00%
30	0.50	0.60	0.00	0.00
40	0.50	0.60	3.53	3.53
50	0.50	0.60	2.90	2.90
60	0.50	0.60	0.20	0.20

DISABILITY: Rates are from the June 30, 2003 pension valuation for CalSTRS (Certificated) and the June 30, 2005 for CalPERS (Classified)[2], except that for Certificated participants we used only the "Coverage A" rates. Sample rates are as follows:

AGE	CERTIFICATED		CLASSIFIED	
	MALE RATE	FEMALE RATE	MALE RATE	FEMALE RATE
20	0.02%	0.02%	0.00%	0.00%
30	0.03	0.03	0.04	0.03
40	0.08	0.09	0.14	0.10
50	0.16	0.22	0.50	0.30
60	0.25	0.28	0.71	0.37

1 We used only the ultimate rates because the District's grandfathered actives have years of service beyond the select period.

2 Classified rates are for non-industrial school employees.

SECTION II ACTUARIAL ASSUMPTIONS AND METHODS

EXHIBIT 2A: DEMOGRAPHIC ASSUMPTIONS *(CONTINUED)*

RETIREMENT: Rates are from the June 30, 2003 pension valuation for CalSTRS (Certificated) and the June 30, 2005 for CalPERS (Classified)[1], except that for Classified participants we averaged the rates within ten-year brackets of entry age. Complete rates for ages 55 to 65 and sample rates thereafter are as follows:

	CERTIFICATED[2]				CLASSIFIED[1,3]				
	LESS THAN 30 YEARS OF SERVICE		30 OR MORE YEARS OF SERVICE						
AGE	MALE RATE	FEMALE RATE	MALE RATE	FEMALE RATE	ENTRY AGE 20 – 29	ENTRY AGE 30 – 39	ENTRY AGE 40 – 49	ENTRY AGE 50 – 59	ENTRY AGE 60+
55	3.0%	5.0%	6.0%	8.0%	8.0%	6.5%	4.0%	2.0%	0.0%
56	2.0	3.5	6.0	8.0	7.0	5.5	3.5	1.5	0.0
57	2.0	3.5	6.0	10.0	7.5	6.0	4.0	2.0	0.0
58	3.0	4.5	12.0	15.0	9.5	7.0	5.0	2.5	0.0
59	5.0	6.0	16.0	18.0	11.0	8.5	6.0	3.0	0.0
60	7.0	10.0	25.0	30.0	17.5	13.5	10.5	5.5	0.0
61	7.0	10.0	40.0	35.0	18.0	14.0	10.5	6.0	0.0
62	9.0	12.0	35.0	32.0	38.5	29.5	23.0	13.0	0.0
63	13.0	18.0	27.0	30.0	35.0	27.0	21.5	12.5	0.0
64	12.0	15.0	27.0	27.0	27.5	21.5	17.0	10.0	0.0
65	14.0	16.0	27.0	27.0	47.0	38.0	30.0	18.5	9.0
70	100.0	100.0	100.0	100.0	41.0	32.0	24.5	18.5	10.0
75	100.0	100.0	100.0	100.0	71.5	28.5	23.0	18.0	10.5
80+	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1 Classified rates are for non-industrial school employees.

2 Retirement rates apply upon meeting CalSTRS pension eligibility at age 55 with 5 years of service or age 50 with 30 years of service.

3 Retirement rates apply upon meeting CalPERS pension eligibility at age 50 with 5 years of service.

SECTION II ACTUARIAL ASSUMPTIONS AND METHODS
EXHIBIT 2A: DEMOGRAPHIC ASSUMPTIONS *(CONTINUED)*

Overall Participation Rate: 100%

Plan Selection Upon Retirement: Future retirees were assumed to participate and elect coverage according to the following percentages[1] (which closely reflect the current mix of retiree coverage):

Blue Cross/In-State	55%
Blue Cross/Out-of-State	11%
Kaiser	34%
EAP	100%
Dental	24%
Vision	22%

Spouses: 70% of future male retirees (45% of future female retirees) were assumed to retire with a covered spouse. For current retirees, we used the census data provided. Male spouses were assumed to be three years older than the current or future retiree.

[1] Current retirees of age 65-or-over were assumed to remain in their current benefit option (non-Medicare, Cost, Risk, Medicare with Part D drugs, or Medicare without Part D drugs). All other participants were assumed to elect the providers' lowest cost Medicare plan upon attainment of age 65 (Kaiser Senior Advantage, Blue Cross/In-State, Blue Cross/Out-of-State, or Medicare with Part D drugs).

SECTION II ACTUARIAL ASSUMPTIONS AND METHODS

EXHIBIT 2B: ECONOMIC ASSUMPTIONS

DISCOUNT RATE: 5.00% per annum

COMPENSATION INCREASE RATE: 3.50% per annum

TREND RATES: [1,2]

PLAN YEAR BEGINNING JULY 1	BLUE CROSS[3]			KAISER	EAP	DENTAL	VISION
	Non-Medicare	Medicare w/Part D	Medicare w/o Part D				
2007	5.67%	6.18%	6.37%	7.00%	5.00%	5.00%	5.00%
2008	5.57	6.00	6.16	7.00	5.00	5.00	5.00
2009	5.47	5.81	5.94	6.50	5.00	5.00	5.00
2010	5.35	5.62	5.71	6.50	5.00	5.00	5.00
2011	5.24	5.42	5.48	6.00	5.00	5.00	5.00
2012	5.12	5.21	5.24	5.50	5.00	5.00	5.00
2013+	5.00	5.00	5.00	5.00	5.00	5.00	5.00

1 The trend shown for a particular year is the rate that must be applied to that year's cost to yield the next year's projected cost.

2 The trend rates apply to both cost and any required self-pay rates.

3 The rates shown are a blend of the underlying medical and prescription drug trends. Medical trend was assumed to be 5.0% for all years. Prescription drug trends were assumed to be 8.0% for 2007/2008, grading down by .5% each year to 5.0% for 2013/2014 and thereafter.

SECTION II ACTUARIAL ASSUMPTIONS AND METHODS

EXHIBIT 2C: PER-CAPITA COST ASSUMPTIONS [1]

NET COST MULTIPLIERS (*i.e.*, Plan Year 2007/2008 annual cost for relative value factor = 1.00)

	BLUE CROSS / IN-STATE [2]			BLUE CROSS / OUT-OF-STATE			KAISER			EAP [3]	DENTAL [3]	VISION [3]
	Non-Medicare	Medicare w/Part D	Medicare w/o Part D	Non-Medicare	Medicare w/Part D	Medicare w/o Part D	Non-Medicare	Senior Advantage	Cost			
	$6,956	$6,956	$6,956	$8,348	$8,348	$8,348	$8,508	$8,508	$8,508	$36	$1,365	$121

NET COST RELATIVE VALUE FACTORS

AGE GROUP	BLUE CROSS / IN-STATE [2]			BLUE CROSS / OUT-OF-STATE			KAISER			EAP [3]	DENTAL [3]	VISION [3]
	Non-Medicare	Medicare w/Part D	Medicare w/o Part D	Non-Medicare	Medicare w/Part D	Medicare w/o Part D	Non-Medicare	Senior Advantage	Cost			
Under 50	0.655	N/A	N/A	0.655	N/A	N/A	0.655	N/A	N/A	1.000	1.000	1.000
50 – 54	0.795	N/A	N/A	0.795	N/A	N/A	0.795	N/A	N/A	1.000	1.000	1.000
55 – 59	1.000	N/A	N/A	1.000	N/A	N/A	1.000	N/A	N/A	1.000	1.000	1.000
60 – 64	1.150	N/A	N/A	1.150	N/A	N/A	1.150	N/A	N/A	1.000	1.000	1.000
65 – 69	1.295	0.540	0.615	1.295	0.645	0.715	1.295	0.580	1.040	1.000	1.000	1.000
70 – 74	1.435	0.605	0.685	1.435	0.725	0.790	1.435	0.580	1.040	1.000	1.000	1.000
75 – 79	1.590	0.680	0.760	1.590	0.815	0.880	1.590	0.580	1.040	1.000	1.000	1.000
80 & Over	1.865	0.810	0.890	1.865	0.970	1.030	1.865	0.580	1.040	1.000	1.000	1.000

1 See the last paragraph of page 15 for a description of the assumptions on this exhibit.

2 Current retirees of age 65-or-over were assumed to remain in their current benefit option (non-Medicare, Cost, Risk, Medicare with Part D drugs, or Medicare without Part D drugs). All other participants were assumed to elect the providers' lowest cost Medicare plan upon attainment of age 65 (Kaiser Senior Advantage, Blue Cross/In-State, Blue Cross/Out-of-State, or Medicare with Part D drugs).

3 Cost is per family (i.e., there is no additional spouse cost).

SECTION II ACTUARIAL ASSUMPTIONS AND METHODS
EXHIBIT 2C: PER-CAPITA COST ASSUMPTIONS *(CONTINUED)*

In general, the District subsidizes 100% of the premium cost for medical, prescription drug and EAP benefits for the eligible retiree and his/her spouse for the retiree's lifetime (a surviving spouse self-pays 100% of the premium). For participants age 65-and-over, the District subsidizes as if they were enrolled in Medicare Parts A, B and D, with Parts A&B assigned. The participant self-pays the full premium for dental and vision coverage and any difference in premium between his/her chosen medical plan and the District's subsidy. For this valuation, the annual premium rates used to determine self-pays were as follows:

Retiree / Surviving Spouse	Spouse	Blue Cross / In-State	Blue Cross / Out-of-State	Kaiser	Dental	Vision
Non-Medicare	None	$ 8,807	$ 9,723	$ 8,538	$ 1,365	$ 121
Non-Medicare	Non-Medicare	17,613	21,123	17,077	1,365	121
Non-Medicare	Medicare w/ Part D, A&B assigned	12,096	16,926	13,461	1,365	121
Non-Medicare	Medicare (Other) [1]	12,748	17,579	17,405	1,365	121
Medicare w/ Part D, A&B assigned	None	4,996	7,184	4,923	1,365	121
Medicare w/ Part D, A&B assigned	Medicare w/ Part D, A&B assigned	8,664	14,407	9,845	1,365	121
Medicare w/ Part D, A&B assigned	Non-Medicare	12,023	15,613	13,461	1,365	121
Medicare w/ Part D, A&B assigned	Medicare (Other) [1]	8,938	15,040	13,789	1,365	121
Medicare (Other) [1]	None	5,649	7,837	8,867	1,365	121
Medicare (Other) [1]	Medicare (Other) [1]	9,970	15,713	17,733	1,365	121
Medicare (Other) [1]	Non-Medicare	12,676	16,266	17,405	1,365	121
Medicare (Other) [1]	Medicare w/ Part D, A&B assigned	8,938	15,041	13,789	1,365	121

[1] Medicare (Other) means Blue Cross Medicare A&B but no Part D, or Kaiser Cost.

SECTION III SUMMARY OF PARTICIPANT DATA

DISTRIBUTION OF ACTIVE EMPLOYEES BY AGE AT JUNE 30, 2007 [1]

AGE GROUP	CERTIFICATED	CLASSIFIED	ADMINISTRATORS	TOTAL
Under 20	0	0	0	0
20 – 24	0	0	0	0
25 – 29	0	0	0	0
30 – 34	0	0	0	0
35 – 39	0	0	0	0
40 – 44	0	0	0	0
45 – 49	0	1	0	1
50 – 54	2	10	1	13
55 – 59	13	5	8	26
60 – 64	12	2	0	14
65 – 69	5	0	0	5
70 & Over	4	1	0	5
Total	36	19	9	64
Average Age	62	56	56	59
Average Service	30	29	31	30

DISTRIBUTION OF CURRENT BENEFIT RECIPIENTS BY AGE AT JUNE 30, 2007 [1]

AGE GROUP	CERTIFICATED		CLASSIFIED		TOTAL
	RETIREES [2]	SPOUSES	RETIREES	SPOUSES	
Under 50	0	0	0	0	0
50 – 54	0	0	0	3	3
55 – 59	3	3	10	1	17
60 – 64	22	25	17	13	77
65 – 69	39	25	18	7	89
70 – 74	41	31	18	7	97
75 – 79	38	23	14	8	83
80 & Over	57	13	39	10	119
Total	200	120	116	49	485
Average Age	74	71	73	70	73

[1] Based on census data captured as of July 31, 2007.

[2] Includes surviving spouses.

SECTION IV SUMMARY OF PRINCIPAL PLAN PROVISIONS

Eligibility for retiree welfare benefits is based on hire date, age and service. It was assumed that all participants were subject to the same requirements. The eligibility provisions adopted for our calculations are as follows:

a. Participant must have been hired by the District prior to the following (determination) dates:

   i. Faculty (Certificated)[1]: September 7, 1982

   ii. Classified: February 16, 1982

   iii. Administrators: June 30, 1983

b. Participant must be at least age 55 with 10 or more years of service at retirement.

c. Participant must be receiving pension payments from CalPERS or CalSTRS. Retirement must have been from permanent full-time active status with full active health benefits.

Surviving spouses of retirees may continue coverage by self-paying the full premium. There is no coverage for **dependent children** of retirees, or surviving spouses of active employees beyond COBRA**.**

[1] Under AB528, Certificated participants hired on or after September 7, 1982 have the option to continue with the District medical and dental plans at retirement by self-paying 100% of the premium. However, because the incidence of participants electing such coverage is very low, we have excluded such coverage from our valuation. We consider the District's liability associated with AB528 coverage to be de minimis.

SECTION IV SUMMARY OF PRINCIPAL PLAN PROVISIONS *(CONTINUED)*

Benefits for Retired Participants

MEDICAL / DRUG	Blue Cross	Kaiser
Lifetime Maximum	$2,000,000 with a $1,000 annual restoration	None
Calendar Year Deductible	None	None
Coinsurance	Plan pays at 100% for all services performed by PPO providers (75% of U&C for non-PPO), except mental health, and alcohol and drug services are paid at 50%.	Plan pays 100% for eligible services.
Office Visit Copay	$25 per visit for preventive care	$0
Prescription Drug Copay	$5/$10 for generic/brand for scripts filled at participating pharmacies. $5 for generic and $10 plus 50% coinsurance of the brand name drug cost for scripts filled at non-participating pharmacies.	$5 for a 100 day supply.

EAP
Plan pays for five visits per episode.

SECTION IV SUMMARY OF PRINCIPAL PLAN PROVISIONS *(CONTINUED)*

DENTAL – Delta Dental
Self-insured plan administered by ACSIG through the JPA. Plan pays 100% for all services performed by PPO providers (for non-PPO providers, coverage starts at 70% and grades up to 100% over four years), except prosthodontic is paid at 70% and orthodontics is paid at 50%. No annual deductible. Annual benefit maximums of: $1,500 annual maximum for "regular" services and $1,000 for services related to accidents. Lifetime maximum of $1,000 for ortho.

VISION – MES
Self-insured plan administered by MES. Plan pays 100% (with no copay) for services/goods from panel provider. Benefits are subject to the usual limits such as one comprehensive exam in a 24 month period (with follow-up at 12 month intervals), standard frames, $75 toward lenses, contacts in lieu of glasses. Coverage for services from non-panel providers is scheduled.

SECTION V NOTES TO AUDITOR

1. Included in the calculation are the following participant groups:

    a. Eligible retirees, spouses and surviving spouses covered under the San Jose/Evergreen Community College District retiree health benefit plan; and

    b. Active employees of San Jose/Evergreen Community College District hired prior to the determination dates provided in Section IV.

2. We used claims experience, enrollment, and premium rate information provided by the District and its broker/consultant to perform the following analysis of per-capita costs.

    a. Blue Cross medical and prescription drug costs were based on retiree experience for the three years ending February 28, 2007. Annual per-capita incurred costs were trended to Plan Year 2007/2008, adjusted for the effect of any Plan changes, and then combined by taking a weighted average. Retiree costs within five-year age groups were then estimated by applying standard utilization and aging factors, an assumed Medicare effect at age 65 (including Blue Cross' Medicare Part D premium credit), and the census counts as of the measurement date. We used the ratio of in-state versus out-of-state premium rates charged by Blue Cross to estimate their relative costs.

    b. Kaiser, EAP, dental and vision costs were based on premiums in effect within Plan Year 2007/2008. For Kaiser, actuarial factors were applied to the blended active/retiree premium rates to estimate retiree-only costs within five-year age groups and to account for the implicit subsidy of the retirees by the actives.

3. For this transition valuation we were not able to completely identify all the components attributable to the change in benefit obligation from the prior valuation. Under the reconciliation box on page 3, the $2.85 million estimated increase in liabilities due to "**benefits earned and other changes**" is the net result of the following items:

    a. A $5.3 million increase for normal changes to Plan obligations, which consist of continuing accruals for active members, plus interest on the Benefit Obligation, less expected benefit payments;

SECTION V NOTES TO AUDITOR *(CONTINUED)*

b. A $3.94 million increase for plan experience due to premium renewals that were larger than expected; and

c. A $6.52 million decrease for actuarial experience gain due to demographic changes and actuarial methods that could not be separately identified for the next note item.

4. The $1.36 million obligation net liability decrease due to **actuarial assumption changes** was for the following:

a. Mortality, disability incidence, turnover and retirement rates changed to those employed for the most recent CalSTRS and CalPERS pension valuations;

b. Covered spouse assumption reduced to 70% for future male retirees and 45% for future female retirees (from 80% for both genders);

c. Trend rates changed to select and ultimate (versus flat 4% rate for all years) with initial rates starting between 8% and 5%, and ultimate rate at 5.0% for all benefits; and

d. Self-pays netted out for participants age 65-or-over who choose coverage costing more than the District subsidy limit (i.e., Medicare Parts A, B and D, with A&B assigned).

5. Our valuation assumed that those age 65-or-over self-pay the difference in premium between their actual plan election and the coverage subsidized by the District (i.e., plan with Medicare Part D with Medicare Parts A & B assigned). However, although the District is working toward bringing everyone in line with policy, self-pays are currently administered inconsistently. Therefore, valuation results may be understated to the extent that required self-pays are not collected.

6. We used participant and claims data furnished by the District. Data items were reviewed for reasonableness and consistency, but no audit was performed. Assumptions or estimates were made when data was not available. We are not aware of any errors or omissions in the data that would have a significant effect on the results presented.

SECTION V NOTES TO AUDITOR *(CONTINUED)*

7. For surviving spouses, the census did not identify in which pension plan the deceased retires participated. We used the CalSTRS assumptions for the eleven surviving spouses.

8. There were eight Blue Cross retired participants whose *Retiree Medicare Eligibility* codes indicated that they were in-state although the premiums paid on their behalf indicated that they were out-of-state. We assumed these participants were in the Out-of-State Blue Cross plan.

9. The age of a retired participant's spouse was calculated based on the *Retiree Medicare Eligibility* code provided and our assumption that husbands are three years older than wives. Where the spouse age difference assumption contradicts the *Retiree Medicare Eligibility* Code, we assumed the spouse age to be 64 for non-Medicare spouses and age 65 for Medicare spouses.

10. Administrative retirees were not separately identified. For retirees, we assumed that all participants identified as CalSTRS participants were Certificated and all participants identified as CalPERS participants were Classified.

11. For retired participants whose Retirement System was unknown, we assumed that they were part of the CalSTRS retirement system.

12. For the purposes of developing our per-capita cost development, we assumed that: for those employees covering one dependent, 90% had a spouse and 10% were single parents; and for those covering more than one dependent, 95% had a spouse and 5% were single parents with an average of 1.5 children per family. We assumed that retirees with two-party coverage all had a covered spouse.

13. We are unaware of any significant events subsequent to the end of the 2006/2007 Plan Year that could materially affect the results presented.

APPENDIX A ACCOUNTING REQUIREMENTS

Transition to GASB 43/45

Previously (under GASB 12 and 26), public sponsors were only required to disclose the existence of any postretirement welfare benefit plans. No liability disclosure was needed unless they were already including such in their financial statements. This is now superseded by two related statements: GASB 43 (released in April 2004) applies to a funded plan's financial statement, while GASB 45 (released in August 2004) applies to a sponsoring employer's financial statement. These accounting rules require an actuarial valuation of dedicated assets, liability, annual cost, and accrual status. Valuations may be performed every other year, except that annual valuation are required if there are any significant amendments or demographic shifts. This is similar to current public pension rules (GASB 25 for plans and GASB 27 for employers), except there's no minimum required funding. (The biggest potential impact will therefore be on bond ratings.)

The first year that a sponsoring employer's financial statement must comply with GASB 45 depends on the sponsor's annual revenue: first fiscal year beginning on or after December 15, 2006 if there is at least $100 million in annual revenue (Phase 1), December 15, 2007 if there is $10 to $99 million in annual revenue (Phase 2), or December 15, 2008 if there is less than $10 million in annual revenue (Phase 3).

If the plan has a dedicated trust fund then its financial statement must comply with GASB 43 one year prior to that described above for GASB 45, and in any case GASB 45 must be adopted one year after the plan complies with GASB 43. Phase 1 sponsors with non-calendar fiscal years must therefore adopt GASB 45 by 2007/2008, but of course early compliance is encouraged.

The table on the next page shows that GASB 43/45 has greater flexibility than FASB 106 (allowing more cost methods and amortization periods) but results in the same or greater accrued liability. The discount rate assumption is long-term (a high trust rate if funded or low sponsor general asset rate if unfunded), so it won't need to be changed every year as for corporate or multiemployer calculations. There are also two breaks given to small plans: those with less than 200 members may disclose only every three years, and those with less than 100 members may use simplified assumptions and methods. Note that the final GASB statements eliminated any exception in the case where retirees self-pay 100% of a mixed active/retiree premium. That is, GASB 43/45 disclosures must account for any implicit subsidy of the retirees by the actives.

APPENDIX A ACCOUNTING REQUIREMENTS *(CONTINUED)*

Sector Comparisons of OPEB Accounting Terminology and Methods

	Corporate (FASB 106)	Multiemployer (SOP 92-6)	Public (GASB 43/45)
Accrued Liability	**APBO** (Accumulated Postretirement Benefit Obligation) = portion of each participant's APVB (Actuarial Present Value of Benefits) attributed to their service-to-date.	Benefit Obligation = same as APBO.	**AAL** (Actuarial Accrued Liability) = same as APBO. The excess of this over assets is the UAAL (Unfunded AAL).
Annual Cost	**NPPBC** (Net Periodic Postretirement Benefit Cost) = Normal Cost (portion of each participant's APVB attributed to their current service year), less the asset return, plus amortizations of initial unfunded liability and subsequent liability changes.	Not applicable.	**ARC** (Annual Required Contribution) = Normal Cost plus amortization of UAAL. ***Note that despite the name, there is no requirement to actually contribute this or any other amount.***
Accrual Status	**APBC** (Accrued Postretirement Benefit Cost) = cumulative excess of prior NPPBC over benefit payments & contributions.	Not applicable.	**NOO** (Net OPEB Obligation) = same as APBC.
Allowable Cost Methods (for attributing APVB to service years)	**Modified PUC** (Projected Unit Credit) = uniform allocation from hire to date of full eligibility for benefits. Note that regular PUC allocates over a longer period: from hire to expected termination age.	Modified PUC.	From slowest to fastest funding (lowest to highest liability): PUC (modified or not), Aggregate, Frozen Attained Age, Frozen Entry Age, Attained Age, and Entry Age.
Allowable Amortization Methods and Periods	**Level dollar** method, generally over average future service years (or average future lifetime if mostly inactives). Immediate recognition allowed in certain circumstances.	Not applicable.	**Level dollar** or **level percentage of pay** method, over any period under 30 years (but minimum 10 years if there's a decrease due to new cost or asset value method).

APPENDIX A ACCOUNTING REQUIREMENTS *(CONTINUED)*

Specific GASB 43 Requirements

The objective of this statement is to establish a uniform standard of measurement and financial reporting for postretirement welfare benefit plans (also known as Other Postemployment Benefit or OPEB plans) of governmental entities. The financial statement of a defined benefit OPEB plan of a governmental entity must include a reconciliation of net plan assets from beginning to end of the last plan year (with an asset breakdown shown at each point). The financial statement *notes* must then include the following:

- General description of benefit plan provisions, accounting methods, and any funding or reserve policy. Also needed here is a description of the covered group and the participant count as of the last valuation date.
- Summary of actuarial assumptions and methods, including discount rate, compensation increase rate, health trend rates, asset valuation method, actuarial cost method, and any amortization methods and periods.
- **Actuarial Accrued Liability** (AAL) as of the latest valuation date, noting the percentage of AAL covered by assets (the Funded Ratio) and the ratio of unfunded AAL to payroll.
- **Schedule of Funding Progress**, showing all elements of the previous bullet as of the latest valuation date, second most recent valuation date (if any), and third most recent valuation date (if any). As noted above, in most cases there will be valuations done every other year, so that this schedule will likewise show amounts for every other year.
- **Schedule of Employer Contributions**, showing the Annual Required Contribution (ARC) and the percentage of such amount that was actually contributed by the employer for the plan year of the financial statement and for every year back to that following the third most recent valuation date. Note that while each valuation produces an ARC applicable to the year following the valuation date, for the purpose of this schedule, one can apply the same ARC for two years in a row (or three years in the case of less than 200 members) in order to get a continuous annual history of ARC and actual contribution amounts. This and the prior schedule are actually to be presented as "Required Supplementary Information" (RSI) after the end of the statement notes.

APPENDIX A ACCOUNTING REQUIREMENTS *(CONTINUED)*

Specific GASB 45 Requirements

The objective of this statement is to improve the "faithfulness and usefulness" of OPEB-related disclosures in the financial statements of governmental entities. The financial statement of a governmental entity must include, for each of its defined benefit OPEB plans, all of the GASB 43 disclosure items plus the following additional note disclosures:

- Reconciliation of **Net OPEB Obligation** (NOO) from beginning to end of the last fiscal year. This will show how the prior NOO is first decreased by benefit payments (if unfunded) and contributions (if funded), then increased by the Annual OPEB Cost (AOC). If the beginning-of-year NOO is zero, then the AOC is simply equal to the ARC as calculated for the Schedule of Employer Contributions. Otherwise the AOC equals ARC plus interest on the initial NOO less an amortization of the initial NOO.

- Up to a three-year historical summary of fiscal year AOC, the percentage of AOC actually contributed in the fiscal year, and NOO as of the end of the fiscal year.