RAEL & LETSON
CONSULTANTS AND ACTUARIES

ACTUARIAL VALUATION OF POSTRETIREMENT WELFARE BENEFITS UNDER GASB 43/45

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

FOR FISCAL YEAR 2009/2010

JANUARY 2010

January 29, 2010

Ms. Jeanine Hawk
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 for Fiscal Year 2009/2010

Dear Ms. Hawk:

We are pleased to present the above captioned report. This report presents the disclosure items that are needed in order for the District to comply with GASB 43/45 for Fiscal Year 2009/2010. 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 used a valuation date of July 1, 2009.

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 2009/2010 financial statements in *Exhibit 1A*. This exhibit provides the Actuarial Accrued Liability and Funded Status as of July 1, 2009, the Annual Required Contribution (ARC) and Annual OPEB Cost for 2009/2010, and an estimated reconciliation of Net OPEB Obligation for 2009/2010. A projected 30-year cashflow is presented as a table in *Exhibit 1B* while *Exhibit 1C* 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

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

Wang Li

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 (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 March 31, 2009. Of the 674 covered participants valued, 322 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.

- **Part B** is the total actuarial present value of benefits (APVB), including both accrued and not-yet-accrued portions. Setting aside \$38.6 million into an irrevocable trust would ensure that the benefit of all current actives[1] and retirees (but not future hires) 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 **\$38.0 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.

The reconciliation of liability over the prior valuation is shown below. More detailed descriptions of the changes in assumptions and new Bridge Plan are provided in items 3 and 4 of Section V, Notes to the Auditor.

AAL at July 1, 2007:	\$ 47,719,500
Interest and benefits earned net of benefits paid:	(932,100)
Effect of new census data:	2,097,200
Effect of new financial data:	(1,912,200)
Effect of assumption changes:	
• Updated demographic rates	1,540,100
• Increased discount rate	(9,644,800)
Effect of new Bridge Plan:	717,200
AAL at July 1, 2009:	\$ 38,044,800

1 Excludes CSEA employees hired on/after February 16, 1982 who are not eligible for retiree health benefits through the District.

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). In the District's case, assets currently exceed the AAL by $3.0 million.

- The "Annual Required Contribution" (ARC) in **Part E** could 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 and an estimated reconciliation for the current year. That estimate cannot be finalized until the actual Plan year 2009/2010 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 is a table detailing each of the first ten years of cash flow activity and then every five years thereafter until the thirtieth year. This table 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 eligible spouse[1]. Retirees must contribute any shortfall, if any, between this subsidy and their actual premiums for medical, dental, and vision.

1 Cash subsidy for Bridge Plan participants is for the retiree only while s/he is under age 65.

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

- **Implicit Subsidy:** Kaiser combines the active and retiree under-age-65 experience in its 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". Blue Cross has begun to use retiree specific experience in its premium development.

As explained in the first footnote on page 9, we strongly advise caution when attempting to use this for the District's short-term financial planning.

Exhibit 1C shows the 30-year projection of AAL (reflecting no new hires after the valuation date) and of the assets that would build up if the District were to annually contribute the Bridge Plan's normal cost into the Trust. Note, however, the accumulation of normal cost for new hires, implementation of a Bridge Plan for CSEA participants, adverse experience and/or less than expected investment returns could create an unfunded AAL in the future.

SECTION I VALUATION RESULTS
EXHIBIT 1A: SUMMARY OF VALUATION RESULTS

	FACULTY	STAFF	ADMINISTRATORS	TOTAL
A. **Participant Count** as of July 1, 2009[1]				
• Current retirees and surviving spouses	180	88	54	322
• Other participants fully eligible for benefits	49	12	10	71
• Other participants not yet fully eligible for benefits	196	16	69	281
Total Count	425	116	133	674
B. **Actuarial Present Value of Benefits** (APVB) at July 1, 2009				
• Current retirees and spouses	$16,805,200	$ 7,058,000	$ 6,761,100	$ 30,624,300
• Other participants fully eligible for benefits	3,570,100	1,414,800	927,700	5,912,600
• Other participants not yet fully eligible for benefits	897,000	902,400	227,100	2,026,500
Total APVB	$ 21,272,300	$ 9,375,200	$ 7,915,900	$ 38,563,400
C. **Actuarial Accrued Liability** (AAL) at July 1, 2009				
• Current retirees and spouses	$ 16,805,200	$ 7,058,000	$ 6,761,100	$ 30,624,300
• Other participants fully eligible for benefits	3,525,400	1,391,900	918,200	5,835,500
• Other participants not yet fully eligible for benefits	607,200	848,500	129,300	1,585,000
Total AAL[2,3,4]	$ 20,937,800	$ 9,298,400	$ 7,808,600	**$ 38,044,800**

1 Results for this July 1, 2009 valuation were projected from a census captured as of March 31, 2009. Staff counts exclude CSEA employees hired on/after February 16, 1982 because they are not eligible for retiree health benefits through the District.

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 costs from age at hire to expected age at retirement.

3 Note that the APVB and AAL shown above have been offset by projected retiree contributions. The gross AAL (excluding dental and vision premiums) before such offset is $43,052,900, of which 88% is due to Plan payments and 12% is due to retiree contributions. Also note that had we increased our assumed health care trend rates by one percent, the total AAL would have increased from $38,044,800 to $41,355,500.

4 The total AAL of $38,044,800 includes the $717,200 AAL attributed to the Bridge Plan.

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

				TOTAL
D. **Funded Status** at July 1, 2009				
Actuarial Value of Assets[1]				$ 41,000,300
Unfunded Actuarial Accrued Liability (UAAL)				$ (2,955,500)
Funded Ratio				106%
Covered Payroll				$ 64,732,200
UAAL as a Percentage of Covered Payroll				N/A
E. **Annual Required Contribution** (ARC) and **Annual OPEB Cost** (AOC) for 2009/2010[2]				
Normal Cost for 2009/2010				$ 76,800
Amortization of UAAL as of July 1, 2009[3]				(252,200)
Total ARC for 2009/2010				$ (175,400)
Interest on July 1, 2009 Net OPEB Obligation				(3,101,000)
(Amortization of July 1, 2009 NOO)[3]				3,357,800
Total AOC for 2009/2010				$ 81,400

1 Actuarial Value of Assets is set at market value per the Plan's financial statement as of June 30, 2009.

2 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). If a new valuation is not performed next year then this same ARC may be considered applicable to that year also. In this manner, the Schedule of Employer Contributions can show a continuous annual history of ARC and actual contribution amounts.

3 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 amortization used here is level dollar over a static 30 years as of July 1, 2008.

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

				TOTAL
F. **Net OPEB Obligation** (NOO)				
Actual Reconciliation over 2008/2009 and *Estimated* Reconciliations over 2009/2010[1]				
NOO at July 1, 2008				n/a
(Benefit Payments paid outside of a trust in 2008/2009)[2]				$ (2,524,700)
(Contributions to a trust in 2008/2009)[2]				(39,957,400)
Annual OPEB Cost (AOC) for 2008/2009[2]				3,129,200
NOO at July 1, 2009[2]				$ (39,352,900)
(*Estimated* Benefit Payments paid outside of a trust in 2009/2010)[3]				0
(*Estimated* Contributions to a trust in 2009/2010)[4]				(50,700)
Annual OPEB Cost (AOC) for 2009/2010				81,400
Estimated NOO at July 1, 2010				$ (39,322,200)

[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 was adopted in 2008/2009.

[2] 2008/2009 information is based on the Plan's financial statement as of June 30, 2009.

[3] Estimate assumes that both the cash and implicit subsidies are paid from the Trust.

[4] Based on information from the District, expected 2009/10 contribution is equivalent to the normal cost for the Bridge Plan.

SECTION I VALUATION RESULTS
EXHIBIT 1B: PROJECTED CASHFLOW TABLE [1]

Plan Year beginning July 1,	Retiree Family Counts [2]			District Cash Subsidy [3]	Retiree Contribution[4]	Total Premium[4]	Plan Implicit Subsidy [5]	Gross Benefit[4,5]	Retiree Contribution Ratio[4.5]
	Current	Future	Both						
2009	322	0	322	$ 3,093,300	$ 137,700	$ 3,231,000	$ 82,900	$ 3,313,900	4%
2010	313	16	329	3,203,700	168,500	3,372,200	88,100	3,460,300	5%
2011	304	28	332	3,314,300	201,300	3,515,600	100,400	3,616,000	6%
2012	294	38	332	3,376,000	235,100	3,611,100	106,300	3,717,400	6%
2013	285	48	333	3,427,300	269,000	3,696,300	106,400	3,802,700	7%
2014	274	56	330	3,446,000	303,100	3,749,100	108,500	3,857,600	8%
2015	264	66	330	3,463,300	337,100	3,800,400	117,700	3,918,100	9%
2016	253	74	327	3,458,400	371,400	3,829,800	119,000	3,948,800	9%
2017	242	84	326	3,455,100	404,600	3,859,700	127,800	3,987,500	10%
2018	231	92	323	3,436,400	437,300	3,873,700	124,400	3,998,100	11%
2023	175	124	299	3,128,000	567,800	3,695,800	115,600	3,811,400	15%
2028	121	152	273	2,647,600	640,800	3,288,400	84,100	3,372,500	19%
2033	74	162	236	2,104,600	647,300	2,751,900	52,800	2,804,700	23%
2038	39	152	191	1,318,600	573,200	1,891,800	22,200	1,914,000	30%

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 grandfathered 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 medical premiums.

4 Retiree Contribution, Total Premium, Gross Benefit, and Retiree Contribution Ratio do not include the cost for dental and/or vision coverage that is fully self-paid by the retiree.

5 Kaiser combines active and retiree under-age-65 experience in its 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 Kaiser's actual premium rate 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.

SECTION I VALUATION RESULTS
EXHIBIT 1C: PROJECTED LIABILITY TABLE

	Actuarial Accrued Liability (AAL)				Assets and Unfunded AAL (UAAL)		
Plan Year Beginning July 1,	Annual District Subsidies[1]	Annual Normal Cost[2]	Annual Interest Cost[3]	AAL at Beginning of Year[4]	Annual Trust Contribution[5]	Assets at Beginning of Year[6]	UAAL at Beginning of Year[7]
2009	$ 3,176,200	$ 76,800	$ 2,878,100	$ 38,044,800	$ 50,700	$ 41,000,300	($ 2,955,500)
2010	3,291,800	72,000	2,856,000	37,823,500	48,400	40,984,800	(3,161,300)
2011	3,414,700	66,600	2,822,400	37,459,700	46,600	40,845,600	(3,385,900)
2012	3,482,300	61,700	2,778,200	36,934,000	44,900	40,565,900	(3,631,900)
2013	3,533,700	57,100	2,725,400	36,291,600	43,400	40,192,300	(3,900,700)
2014	3,554,500	52,600	2,665,200	35,540,400	41,900	39,734,200	(4,193,800)
2015	3,581,000	48,800	2,598,000	34,703,700	40,400	39,216,800	(4,513,100)
2016	3,577,400	45,000	2,524,400	33,769,500	38,900	38,629,600	(4,860,100)
2017	3,582,900	41,900	2,444,900	32,761,500	37,400	37,998,200	(5,236,700)
2018	3,560,800	39,100	2,359,200	31,665,400	35,700	37,310,000	(5,644,600)
2023	3,243,600	28,200	1,883,900	25,482,300	26,900	33,717,200	(8,234,900)
2028	2,731,700	19,600	1,364,400	18,645,200	18,000	30,669,800	(12,024,600)
2033	2,157,400	12,100	864,200	12,022,500	9,400	29,581,200	(17,558,700)
2038	1,340,800	6,200	448,500	6,355,400	3,500	31,995,000	(25,639,600)

1 Includes District cash and implicit subsidies.
2 *Normal Cost* is the annual increase in AAL due to the additional year of service earned by active participants.
3 *Interest Cost* is approximately a full year of 7.88% on AAL and Normal Cost, less a half-year of 7.88% on District (cash and implicit) Subsidies.
4 AAL plus Interest Cost plus Normal Cost minus District (cash and implicit) Subsidies equals the next year's AAL.
5 We have developed this projection assuming District makes annual Trust contributions equivalent to the Normal Cost for the Bridge Plan.
6 Assets (with a full year's interest) plus Contribution less District (cash and implicit) Subsidies (with a half-year's interest on both) equal the next year's Assets.
7 UAAL equals the excess of AAL over 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. The actuarial value of assets is equivalent to the market value of assets. For the amortizations of Unfunded AAL and Net OPEB Obligation we show the "level dollar" method over a static 30 years as of July 1, 2008.

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, 2007 CalSTRS pension valuation and are based on a study of experience for the four years ending June 30, 2007. 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 with five years of service, we expect that in the next year 6 will die, 500 will terminate employment with no benefits, and 8 will become disabled. Likewise, for every 10,000 active male Classified participants age 40 with five years of service, we expect that in the next year 8 will die, 766 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

[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)*

Exhibit 2A, as split by service years for Certificated and by entry age for Classified.

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's assets irrevocably set aside in a trust to pay for its other post employment benefit liabilities. 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 2009/2010 (*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, 2007 pension valuation for CalSTRS (Certificated) and the June 30, 2005 for CalPERS (Classified)[1]. Note that the Certificated, the actives rates are equal to retired rates with a two-year setback.[2] Sample rates are as shown below.

	CERTIFICATED						CLASSIFIED/MANAGEMENT					
	ACTIVE		RETIRED		DISABLED[3]		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%	0.03%	0.02%	2.50%	2.00%	0.02%	0.01%	0.05%	0.03%	0.73%	0.52%
30	0.04	0.02	0.04	0.02	2.50	2.00	0.04	0.02	0.08	0.03	0.77	0.58
40	0.06	0.04	0.08	0.05	2.50	2.00	0.08	0.05	0.10	0.07	0.87	0.64
50	0.13	0.09	0.15	0.11	2.50	2.00	0.16	0.10	0.25	0.14	1.46	1.13
60	0.29	0.22	0.36	0.27	2.50	2.00	0.31	0.23	0.72	0.44	2.87	1.88
70	1.00	0.76	1.27	0.97	2.73	2.07	0.63	0.50	2.14	1.28	4.67	3.02
80	3.42	2.52	4.36	3.26	8.05	5.63	1.28	1.11	6.26	3.88	9.48	6.51

1 Classified rates are for non-industrial school employees.

2 Once an active is projected to retire or become disabled we apply the same mortality rates as for those currently retired or disabled. The CalSTRS pension valuation instead maintains a two-year mortality offset for actives as they become future retirees or disableds.

3 The actual CalSTRS pension disability mortality rates are higher for the first three years after disablement, but we have not reflected that in our valuation.

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

TURNOVER – Certificated: 25-year select and ultimate rates are from the June 30, 2007 pension valuation for CalSTRS. Sample rates are as shown below.

AGE	MALE RATE						FEMALE RATE					
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 26+ (ULTIMATE)	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 26+ (ULTIMATE)
20	15.30%	13.00%	9.00%	6.00%	4.40%	0.38%	15.30%	10.00%	7.20%	6.30%	5.80%	0.34%
30	15.30	12.50	7.70	6.00	4.80	0.38	15.30	11.00	8.50	7.00	6.00	0.34
40	15.30	13.00	9.00	6.50	5.00	0.38	15.30	11.00	7.50	6.00	4.50	0.34
50	18.00	14.00	10.00	7.00	4.00	0.50	15.30	10.50	7.00	5.50	3.00	0.40
60	18.00	14.00	10.00	7.00	4.00	0.50	15.30	10.50	7.00	5.50	3.00	0.40

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

TURNOVER – Classified[1]**:** 25-year select and ultimate rates are from the June 30, 2005 pension valuation for CalPERS. Sample rates are as shown below.

AGE	MALE AND FEMALE RATE					
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 26+ (ULTIMATE)
20	16.17%	15.01%	13.84%	12.67%	11.51%	0.00%
30	14.25	13.09	11.92	10.75	9.59	0.00
40	12.33	11.16	10.00	8.83	7.66	3.53
50	10.41	9.24	8.08	6.91	5.74	0.29
60	8.49	7.32	6.16	4.99	3.82	0.02

DISABILITY: Rates are from the June 30, 2007 pension valuation for CalSTRS (Certificated) and the June 30, 2005 pension valuation for CalPERS (Classified)[1], except that for Certificated participants we used only the "Coverage A" rates. Sample rates are as shown below.

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] 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, 2007 pension valuation for CalSTRS (Certificated)[1] and the June 30, 2005 for CalPERS (Classified)[2], 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				CLASSIFIED				
	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	2.7%	4.5%	8.0%	9.0%	8.0%	6.5%	4.0%	2.0%	0.0%
56	1.8	3.2	8.0	9.0	7.0	5.5	3.5	1.5	0.0
57	1.8	3.2	10.0	11.0	7.5	6.0	4.0	2.0	0.0
58	2.7	4.1	14.0	16.0	9.5	7.0	5.0	2.5	0.0
59	4.5	5.4	18.0	19.0	11.0	8.5	6.0	3.0	0.0
60	6.3	9.0	27.0	31.0	17.5	13.5	10.5	5.5	0.0
61	6.3	9.0	43.0	40.0	18.0	14.0	10.5	6.0	0.0
62	10.8	10.8	38.0	37.0	38.5	29.5	23.0	13.0	0.0
63	11.7	16.2	30.0	35.0	35.0	27.0	21.5	12.5	0.0
64	10.8	13.5	30.0	32.0	27.5	21.5	17.0	10.0	0.0
65	13.5	14.4	30.0	32.0	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 Certificated rates are loaded by 45% for 25 to 27 completed years of service.

2 Classified rates are those for non-industrial school employees.

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%

Spouses: For current retirees, we used the census data provided. For future retirees eligible for the Grandfathered Plan, 70% of future male retirees (45% of future female retirees) were assumed to retire with a covered spouse with husbands assumed to be three years older than their wives. Spouses of Bridge Plan participants are not eligible for coverage.

[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' Risk or Medicare with Part D drug plan).

SECTION II ACTUARIAL ASSUMPTIONS AND METHODS
EXHIBIT 2B: ECONOMIC ASSUMPTIONS

DISCOUNT RATE: 7.88% per annum

COMPENSATION INCREASE RATE: N/A

TRENDS RATES: [1,2]

PLAN YEAR BEGINNING JULY 1	BLUE CROSS[3]			KAISER	EAP
	Non-Medicare	Medicare w/Part D	Medicare w/o Part D		
2009	5.52%	5.91%	6.01%	6.50%	5.00%
2010	5.40	5.69	5.76	6.50	5.00
2011	5.27	5.46	5.51	6.00	5.00
2012	5.13	5.23	5.26	5.50	5.00
2013+	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 7.0% for 2009/2010, 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 2009/2010 annual cost for relative value factor = 1.00)

	BLUE CROSS IN STATE[2]						BLUE CROSS/OUT-OF-STATE[2]					
	Non-Medicare		Medicare w/ Part D		Medicare w/o Part D		Non-Medicare		Medicare w/ Part D		Medicare w/o Part D	
	Retiree	Spouse	Retiree	Spouse	Retiree	Spouse	Retiree	Spouse	Retiree	Spouse	Retiree	Spouse
	$7,649	$6,839	$7,649	$6,839	$4,906	$3,753	$8,445	$9,257	$8,445	$9,257	$6,807	$6,836

NET COST RELATIVE VALUE FACTORS

	BLUE CROSS IN STATE						BLUE CROSS/OUT-OF-STATE					
	Non-Medicare		Medicare w/ Part D		Medicare w/o Part D		Non-Medicare		Medicare w/ Part D		Medicare w/o Part D	
	Retiree	Spouse	Retiree	Spouse	Retiree	Spouse	Retiree	Spouse	Retiree	Spouse	Retiree	Spouse
Under 50	1.000	1.000	N/A	N/A	N/A	N/A	1.000	1.000	N/A	N/A	N/A	N/A
50 – 54	1.000	1.000	N/A	N/A	N/A	N/A	1.000	1.000	N/A	N/A	N/A	N/A
55 – 59	1.000	1.000	N/A	N/A	N/A	N/A	1.000	1.000	N/A	N/A	N/A	N/A
60 – 64	1.000	1.000	N/A	N/A	N/A	N/A	1.000	1.000	N/A	N/A	N/A	N/A
65 – 69	1.000	1.000	0.850	0.740	1.000	1.000	1.000	1.000	1.155	1.055	1.000	1.000
70 – 74	1.000	1.000	0.850	0.740	1.000	1.000	1.000	1.000	1.155	1.055	1.000	1.000
75 – 79	1.000	1.000	0.850	0.740	1.000	1.000	1.000	1.000	1.155	1.055	1.000	1.000
80 & Over	1.000	1.000	0.850	0.740	1.000	1.000	1.000	1.000	1.155	1.055	1.000	1.000

1 See the last paragraph of page 12 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' Risk or Medicare with Part D drug plan.

SECTION II ACTUARIAL ASSUMPTIONS AND METHODS
EXHIBIT 2C: PER-CAPITA COST ASSUMPTIONS [1]

NET COST MULTIPLIERS (*i.e.*, Plan Year 2009/2010 annual cost for relative value factor = 1.00)

	KAISER[2]			EAP[3]
	Non-Medicare	Risk	Cost	
	$8,989	$8,989	$8,989	$36

NET Relative Value Factors

	KAISER			EAP
	Non-Medicare	Risk	Cost	
Under 50	0.655	N/A	N/A	1.000
50 – 54	0.795	N/A	N/A	1.000
55 – 59	1.000	N/A	N/A	1.000
60 – 64	1.150	N/A	N/A	1.000
65 – 69	1.295	0.550	1.090	1.000
70 – 74	1.435	0.550	1.090	1.000
75 – 79	1.590	0.550	1.090	1.000
80 & Over	1.865	0.550	1.090	1.000

1 See the last paragraph of page 12 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' Risk or Medicare with Part D drug plan.

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)*

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	EAP
Non-Medicare	None	$ 7,649	$ 8,445	$ 9,194	$36
Non-Medicare	Non-Medicare	15,297	18,346	18,388	36
Non-Medicare	Medicare w/ Part D, A&B assigned	12,374	18,201	14,157	36
Non-Medicare	Medicare (Other) [1]	11,072	15,268	19,012	36
Medicare w/ Part D, A&B assigned	None	$ 6,498	$ 9,736	$ 4,962	36
Medicare w/ Part D, A&B assigned	Medicare w/ Part D, A&B assigned	11,617	19,512	9,925	36
Medicare w/ Part D, A&B assigned	Non-Medicare	12,602	17,057	14,157	36
Medicare w/ Part D, A&B assigned	Medicare (Other) [1]	9,922	16,559	14,780	36
Medicare (Other) [1]	None	$ 4,906	$ 6,807	$ 9,818	36
Medicare (Other) [1]	Medicare (Other) [1]	8,659	13,647	19,636	36
Medicare (Other) [1]	Non-Medicare	11,010	14,128	19,012	36
Medicare (Other) [1]	Medicare w/ Part D, A&B assigned	9,631	16,563	14,780	36

[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 JULY 1, 2009 [1]

AGE GROUP	FACULTY	STAFF[2]	ADMINISTRATORS	TOTAL
Under 20	0	0	0	0
20 – 24	0	0	0	0
25 – 29	4	1	1	6
30 – 34	13	0	4	17
35 – 39	25	0	10	35
40 – 44	24	0	6	30
45 – 49	33	3	12	48
50 – 54	38	10	15	63
55 – 59	43	8	11	62
60 – 64	46	4	16	66
65 – 69	13	1	4	18
70 & Over	6	1	0	7
Total	245	28	79	352
Average Age	52	55	51	52
Average Service	12	23	10	12

1 Based on census data captured as of March 31, 2009.

2 Excludes CSEA employees hired on/after February 16, 1982 who are not eligible for retiree health benefits through the District.

SECTION III SUMMARY OF PARTICIPANT DATA *(CONTINUED)*

DISTRIBUTION OF CURRENT BENEFIT RECIPIENTS BY AGE AT JULY 1, 2009[1]

	FACULTY		STAFF		ADMINISTRATORS		TOTAL	
	RETIREES[2]	SPOUSES	RETIREES[2]	SPOUSES	RETIREES[2]	SPOUSES	RETIREES[2]	SPOUSES
Under 50	0	1	0	0	0	2	0	3
50 – 54	0	4	0	1	0	1	0	6
55 – 59	0	5	2	2	6	3	8	10
60 – 64	14	17	11	1	6	3	31	21
65 – 69	28	16	12	7	13	8	53	31
70 – 74	35	17	12	5	15	9	62	31
75 – 79	37	21	14	7	11	4	62	32
80 & Over	66	14	37	7	3	3	106	24
Total	180	95	88	30	54	33	322	158
Average Age	76	71	76	73	69	68	75	70

[1] Based on census data captured as of March 31, 2009.

[2] Includes surviving spouses.

SECTION IV SUMMARY OF PRINCIPAL PLAN PROVISIONS

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

a. Participants must be retire from permanent full-time active status with full active health benefits;

b. Participants must be receiving pension payments from CalPERS or CalSTRS;

c. Participants hired by the District prior to the following *determination* dates and are at least age 55 with 10 or more years of service at retirement are eligible for benefits under the **Grandfathered Plan**:

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

   ii. Classified (CSEA): February 16, 1982

   iii. Administrative: June 30, 1983

d. Faculty[1] and Administrative participants hired by the District on/after the *determination* dates specified in (c) above and are at least age 60 with 15 or more years of service at retirement are eligible for benefits under the **Bridge Plan**.

[1] Under AB528, Certificated participants 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)*

The menu of benefit options available is the same for all eligible retirees (except Bridge Plan participants do not have access to the District's vision plan), but there are two levels of District subsidy.

- **Grandfathered Plan** – for those hired prior to the retiree health *determination* dates[2], 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 premium). For participants age 65 or over, the District subsidizes as if they were enrolled in Medicare Parts A, B and D, with 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 subsidy. There is no coverage for dependent children of retirees, or surviving spouses of active employees beyond COBRA.
- **Bridge Plan** – for Faculty (Certificated) and Administrative participants hired on/after the retiree health *determination* dates[1], the District subsidizes 100% of the premium cost for medical, prescription drug and EAP benefits for the retiree until s/he attains age 65 (regardless of Medicare eligibility). The participant may self-pay the full premium for dental coverage. There is no vision coverage available for retirees, or health coverage for spouses, surviving spouses or dependent children beyond COBRA.

[2] Faculty – September 7, 1982; CSEA – February 16, 1982; Administrative staff – June 30, 1983

Benefits for Retired Participants

MEDICAL / DRUG	BLUE CROSS	KAISER
Lifetime Maximum	$5,000,000	None
Calendar Year Deductible	None	None
Coinsurance	Plan pays 100% for all services performed by PPO providers (scheduled amount for non-PPO), except mental health, and alcohol and drug services are paid at 50%.	Plan pays 100% for eligible services.
Office Visit Copay	$0	$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 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[1] of San Jose/Evergreen Community College District.

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. The Blue Cross underwriting was changed for the 2009/2010 Plan Year in that retirees were separately rated from the actives. As a result, costs were based on in-state and out-of-state premiums in effect within Fiscal Year 2009/2010.

   b. Kaiser and EAP costs were based on premiums in effect within Fiscal Year 2009/2010. 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. Actuarial Assumption changes adopted for this valuation are as follows:

   a. The Certificated demographic rates for mortality, turnover, and retirement were updated to those used in the June 30, 2007 CalSTRS pension valuation.

   b. The discount rate was increased to 7.88% to reflect the long-term rate of return expected on assets in the District's irrevocable trust. Our prior valuation assumed a rate of return applicable to the District's general assets, as this trust had not yet been established.

[1] Excludes CSEA employees hired on/after February 16, 1982 who are not eligible for retiree health benefits through the District.

SECTION V NOTES TO AUDITOR *(CONTINUED)*

4. The District implemented a Bridge Plan for faculty (certificated) and administrative retirees hired on/after the retiree health *determination* dates[1] and retiring on/after July 1, 2009. The menu of benefit options are the same as those available to participants eligible under the Grandfathered Plan (except the Bridge Plan does not offer vision benefits). However, the age/service eligibility criteria are more stringent and the District subsidy is more limited: District subsidizes the cost of retiree-only coverage while the participant is under age 65, if s/he is at least age 60 with 15 or more years of service at retirement.

5. The Blue Cross plans implemented benefit changes in 2008 and 2009 that essentially offset one another in terms of their cost impact. We did not separately isolate this impact on our valuation results.

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.

7. For surviving spouses where the census did not identify in which pension plan the deceased retires had participated, we used the CalSTRS assumptions.

8. For retired participants whose Retirement System was unknown, we assumed that they were part of the CalSTRS retirement system, if they were identified as faculty members and CalPERS for all other retirees. Similarly, for retired participants whose classification was unknown, we assumed they were faculty members if they retired under CalSTRS and staff members if they retired under CalPERS.

9. 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.

10. We are unaware of any significant events subsequent to the July 1, 2009, the valuation date that could materially affect the results presented.

[1] Faculty – September 7, 1982; Administrative staff – June 30, 1983