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, 2011

DECEMBER 2011

December 9, 2011

Ms. Kim Garcia
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, 2011

Dear Ms. Garcia:

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 2011/2012. 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 June 30, 2011.

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

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

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

cc: Peter Fitzsimmons
Douglas Smith

TABLE OF CONTENTS

		Page
Introduction and Actuarial Certification		**1**
Section I	**Valuation Results**	**3**
	Highlights of the Valuation	3
	Exhibit 1A: Summary of Valuation Results	6
	Exhibit 1B: Projected Cashflow Table	9
Section II	**Actuarial Assumptions and Methods**	**10**
	General Information	10
	Exhibit 2A: Demographic Assumptions	12
	Exhibit 2B: Economic Assumptions	17
	Exhibit 2C: Per-Capita Cost Assumptions	18
Section III	**Summary of Participant Data**	**21**
Section IV	**Summary of Principal Plan Provisions**	**23**
Section V	**Notes to Auditor**	**26**

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 2011/2012 financial statements in *Exhibit 1A*. This exhibit provides the Actuarial Accrued Liability and Funded Status as of June 30, 2011, the Annual Required Contribution (ARC) and Annual OPEB Cost for 2011/2012, and an estimated reconciliation of Net OPEB Obligation for 2011/2012. A projected 30-year cashflow is presented as a table in *Exhibit 1B*.
- **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 (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 June 30, 2011. Of the 620 covered participants valued, 313 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 $40.9 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 **$40.4 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 are provided in item 3 Section V, Notes to the Auditor.

AAL at July 1, 2009:	$ 38,044,800
Interest and benefits earned net of benefits paid:	(585,000)
Effect of new census data:	(336,900)
Effect of new financial data:	1,058,500
Effect of assumption changes:	
• Updated PERS demographic assumption	353,100
• Updated spousal participation and overall migration rate	(9,500)
• Introduced new age relativity factor	355,700
• Increased initial trend rate and lengthened the select period	1,495,700
AAL at June 30, 2011:	$ 40,376,400

[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 $9.3 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. Under the current funding situation, the District would not need to consider making contributions until the ARC becomes positive.

  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 years and an estimated reconciliation for the current year. That estimate cannot be finalized until the actual Plan year 2011/2012 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 uses 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.

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

	FACULTY	STAFF	ADMINISTRATIVE	TOTAL
A. **Participant Count** as of June 30, 2011[1]				
• Current retirees and surviving spouses	160	94	59	313
• Other participants fully eligible for benefits	37	7	6	50
• Other participants not yet fully eligible for benefits	191	4	62	257
Total Count	388	105	127	620
B. **Actuarial Present Value of Benefits** (APVB) at June 30, 2011				
• Current retirees and spouses	$ 18,052,600	$ 9,084,200	$ 7,106,500	$ 34,243,300
• Other participants fully eligible for benefits	2,971,200	1,224,800	326,600	4,522,600
• Other participants not yet fully eligible for benefits	1,287,900	545,100	302,300	2,135,300
Total APVB	$ 22,311,700	$ 10,854,100	$ 7,735,400	$ 40,901,200
C. **Actuarial Accrued Liability** (AAL) at June 30, 2011				
• Current retirees and spouses	$ 18,052,600	$ 9,084,200	$ 7,106,500	$ 34,243,300
• Other participants fully eligible for benefits	2,945,400	1,217,500	324,800	4,487,700
• Other participants not yet fully eligible for benefits	885,100	538,300	222,000	1,645,400
Total AAL[2,3,4,5]	$ 21,883,100	$ 10,840,000	$ 7,653,300	$ 40,376,400

1 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 benefits) before such offset is $46,055,600, 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 $40,376,400 to $43,656,700.

4 Based on current plan design, cost sharing arrangement and assumptions, we estimate the excise tax resulting from the passage of the Patient Protection and Affordable Care Act will increase the June 30, 2011 AAL by $676,400. Please see Section V, item 10, for more detail.

5 The total AAL shown includes $1,243,200 attributed to the Bridge plan.

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

				TOTAL
D. **Funded Status** at June 30, 2011				
Actuarial Value of Assets [1]				$ 49,703,700
Unfunded Actuarial Accrued Liability (UAAL)				(9,327,300)
Funded Ratio				122%
Covered Payroll [2]				$ 58,800,000
UAAL as a Percentage of Covered Payroll				N/A
E. **Annual Required Contribution** (ARC) and **Annual OPEB Cost** (AOC) for 2011/2012 [3]				
Normal Cost for 2011/2012				$ 73,000
Amortization of UAAL as of July 1, 2011 [4]				(812,400)
Total ARC for 2011/2012				($ 739,400)
Interest on July 1, 2011 Net OPEB Obligation				(3,087,700)
(Amortization of July 1, 2011 NOO) [4]				3,413,100
Total AOC for 2011/2012				$ (414,000)

1 Actuarial Value of Assets is set at Market Value of Assets

2 Payroll amount includes base pay and overtime for all full and part-time employees, according to the District's 2011/2012 budget projection.

3 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.

4 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 June 30, 2008.

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

	2009/2010 [1]	2010/2011 [1]	2011/2012
F. Reconciliation of **Net OPEB Obligation** (NOO) [2]			
Beginning of Year AAL	$ 38,004,800	$ 37,823,500	$ 40,376,400
Beginning of Year Assets	41,000,300	44,000,461	49,703,700
Beginning of Year UAAL	$ (2,995,500)	$ (6,176,961)	$ (9,327,300)
NOO at Beginning of Year	$ (39,352,900)	$ (39,271,500)	$ (39,183,703)
Normal Cost	$ 76,800	$ 76,800	$ 73,000
Amortization of Beginning of UAAL	(252,200)	(252,200)	(812,400)
Annual Required Contribution = ARC	$ (175,400)	$ (175,400)	$ (739,400)
Interest on Beginning of Year NOO	(3,101,000)	(3,094,603)	(3,087,700)
Amortization of Beginning of Year NOO	3,357,800	3,357,800	3,413,100
Annual OPEB Cost (AOC)	$ 81,400	$ 87,797	$ (414,000)
(Benefit Payments paid outside of a trust) [3]	-	-	-
(Contributions to a District trust) [4]	-	-	-
NOO at End of Year [4]	$ (39,271,500)	$ (39,183,703)	$ (39,597,703)

1 Information through 2010/2011 is based on the Plan's June 30, 2010 financial statement and June 30, 2011 draft financial statement.

2 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. The District adopted GASB 43/45 in 2008/2009.

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

4 Based on information from the District, there are no contributions into the Trust during this period.

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						
2011	313	9	322	$ 3,488,000	$ 147,800	$ 3,635,800	$ 83,500	$ 3,719,300	4%
2012	304	16	320	3,583,000	187,300	3,770,300	92,400	3,862,700	5%
2013	295	22	317	3,679,500	228,600	3,908,100	95,700	4,003,800	6%
2014	287	25	312	3,695,600	271,000	3,966,600	95,200	4,061,800	7%
2015	277	28	305	3,729,300	314,200	4,043,500	108,500	4,152,000	8%
2016	267	32	299	3,762,600	358,900	4,121,500	120,600	4,242,100	8%
2017	257	35	292	3,781,800	402,100	4,183,900	127,200	4,311,100	9%
2018	247	38	285	3,762,000	445,200	4,207,200	127,500	4,334,700	10%
2019	238	38	276	3,722,000	488,300	4,210,300	132,800	4,343,100	11%
2020	227	36	263	3,614,400	527,300	4,141,700	143,000	4,284,700	12%
2025	174	38	212	3,212,000	660,300	3,872,300	152,800	4,025,100	16%
2030	121	33	154	2,613,800	726,800	3,340,600	136,400	3,477,000	21%
2035	76	28	104	1,888,100	702,500	2,590,600	89,500	2,680,100	26%
2040	40	18	58	1,084,300	579,400	1,663,700	40,300	1,704,000	34%

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 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 beginning 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 CalPERS study of "employer" experience over the ten years ending June 30, 2007. 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 9 will die, 735 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* was provided by the District and represents the expected long-term rate of return on District 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 1.170, which means that expected costs at those ages are 17.0% higher than expected costs for ages 55 to 59. The “net cost multiplier” is then the annual per-capita cost in Plan Year 2011/2012 (*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 CalSTRS (Certificated) experience study of the four years ending June 30, 2007 and the CalPERS (Classified)[1] study of employer experience over the ten years ending June 30, 2007. Post retirement mortality includes five years of projected on-going mortality improvements using the Scale AA published by the Society of Actuaries. Note that under the Certificated table, the active rates are equal to retired rates with a two-year setback.[2] Sample rates are as shown below.

	CERTIFICATED						CLASSIFIED					
	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%	0.05%	0.02%	0.04%	0.03%	0.66%	0.48%
30	0.04	0.02	0.04	0.02	2.50	2.00	0.05	0.04	0.07	0.03	0.79	0.51
40	0.06	0.04	0.08	0.05	2.50	2.00	0.09	0.07	0.09	0.06	1.67	0.67
50	0.13	0.09	0.15	0.11	2.50	2.00	0.18	0.13	0.24	0.13	1.63	1.25
60	0.29	0.22	0.36	0.27	2.50	2.00	0.40	0.27	0.72	0.43	2.29	1.63
70	1.00	0.76	1.27	0.97	2.73	2.07	0.91	0.65	1.68	1.24	3.87	3.02
80	3.42	2.52	4.36	3.26	8.05	5.63	1.53	1.11	5.27	3.75	8.39	5.56

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 CalSTRS experience study of the four years ending June 30, 2007. 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 CalPERS (Classified) study of employer experience over the ten years ending June 30, 2007. 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	17.42%	15.59%	13.76%	11.93%	10.10%	4.23%
30	16.06	14.23	12.38	10.55	8.72	4.23
40	14.68	12.85	11.02	9.19	7.35	4.23
50	13.32	11.47	9.64	7.81	5.98	0.11
60	12.08	10.11	8.28	6.44	4.60	0.01

DISABILITY: Rates are from the CalSTRS (Certificated) experience study of the four years ending June 30, 2007 and the CalPERS (Classified)[1] study of employer experience over the ten years ending June 30, 2007, 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	0.01%	0.01%	0.01%	0.01%
30	0.02	0.01	0.02	0.01
40	0.14	0.09	0.14	0.09
50	0.44	0.30	0.44	0.30
60	0.43	0.24	0.43	0.24

[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 CalSTRS (Certificated)[1] experience study of the four years ending June 30, 2007 and the CalPERS (Classified)[2] study of employer experience over the ten years ending June 30, 2007, 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 18-24	ENTRY AGE 25 – 34	ENTRY AGE 35 – 44	ENTRY AGE 44 – 54	ENTRY AGE 55+
55	2.7%	4.5%	8.0%	9.0%	11.5%	9.0%	7.0%	3.5%	0.0%
56	1.8	3.2	8.0	9.0	9.5	7.5	6.0	3.0	0.0
57	1.8	3.2	10.0	11.0	10.5	8.0	6.5	3.5	0.0
58	2.7	4.1	14.0	16.0	13.0	10.0	8.0	4.5	0.0
59	4.5	5.4	18.0	19.0	15.0	11.5	9.5	5.5	0.0
60	6.3	9.0	27.0	31.0	19.0	15.5	12.0	7.5	3.5
61	6.3	9.0	43.0	40.0	23.5	19.5	15.5	10.0	5.0
62	10.8	10.8	38.0	37.0	40.0	34.0	26.5	18.0	9.0
63	11.7	16.2	30.0	35.0	36.0	31.5	24.5	17.5	9.0
64	10.8	13.5	30.0	32.0	35.0	31.5	24.0	18.0	9.5
65	13.5	14.4	30.0	32.0	47.5	43.5	33.5	25.5	13.5
70	100.0	100.0	100.0	100.0	62.5	34.5	27.5	22.0	13.0
75	100.0	100.0	100.0	100.0	100.0	35.5	26.5	20.0	12.5
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 Upon Retirement Rate: 100%

Plan Selection Upon Retirement: Future Grandfathered and Bridge Plan retirees were assumed to participate and elect coverage according to the following percentages[1] (which closely reflect the current mix of pre- and post-65 retiree coverage):

	Grandfathered	Bridge
Blue Cross/In-State	60%	40%
Blue Cross/Out-of-State	10%	10%
Kaiser	30%	50%
EAP	100%	100%

Dependent Coverage at Retirement: For current retirees, we used the census data provided. For future retirees eligible for the Grandfathered Plan, 70% of future male retirees (40% 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

TREND RATES: [1,2]

PLAN YEAR BEGINNING JULY 1	BLUE CROSS[3]			KAISER	EAP
	Non-Medicare	Medicare w/Part D	Medicare w/o Part D		
2011	6.27%	5.30%	5.33%	8.50%	4.50%
2012	7.75	5.22	5.24	8.00	4.50
2013	7.50	5.00	5.00	7.75	4.50
2014	7.25	5.00	5.00	7.50	4.50
2015	7.00	5.00	5.00	7.25	4.50
2016	6.75	4.75	4.75	7.00	4.50
2017	6.50	4.75	4.75	6.75	4.50
2018	6.25	4.75	4.75	6.50	4.50
2019	6.00	4.50	4.50	6.25	4.50
2020	5.75	4.50	4.50	6.00	4.50
2021	5.50	4.50	4.50	5.75	4.50
2022	5.25	4.50	4.50	5.50	4.50
2023	5.00	4.50	4.50	5.25	4.50
2024	4.75	4.50	4.50	5.00	4.50
2025	4.50	4.50	4.50	4.75	4.50
2026+	4.50	4.50	4.50	4.50	4.50

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. In addition, because the plans are fully experience rated, the initial year trend assumptions were adjusted to reflect any surpluses/deficits assumed in the current-year premiums so that projected premiums after 2011/2012 are aligned with projected costs.

SECTION II ACTUARIAL ASSUMPTIONS AND METHODS

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

NET COST MULTIPLIERS (i.e., Plan Year 2011/2012 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
	$10,262	$9,042	$10,262	$9,042	$6,582	$4,887	$11,330	$11,553	$11,330	$11,553	$9,132	$9,170

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	0.770	0.690	1.000	1.000	1.000	1.000	0.823	0.810	1.000	1.000
70 – 74	1.000	1.000	0.770	0.690	1.000	1.000	1.000	1.000	0.823	0.810	1.000	1.000
75 – 79	1.000	1.000	0.770	0.690	1.000	1.000	1.000	1.000	0.823	0.810	1.000	1.000
80 & Over	1.000	1.000	0.770	0.690	1.000	1.000	1.000	1.000	0.823	0.810	1.000	1.000

[1] See the last paragraph of page 11 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 2011/2012 annual cost for relative value factor = 1.00)

	KAISER[2]			EAP[3]
	Non-Medicare	Risk	Cost	
	$10,816	$10,816	$10,816	$36

NET Relative Value Factors

	KAISER			EAP
	Non-Medicare	Risk	Cost	
Under 50	0.635	N/A	N/A	1.000
50 – 54	0.785	N/A	N/A	1.000
55 – 59	1.000	N/A	N/A	1.000
60 – 64	1.170	N/A	N/A	1.000
65 – 69	1.340	0.490	0.960	1.000
70 – 74	1.505	0.490	0.960	1.000
75 – 79	1.700	0.490	0.960	1.000
80 & Over	2.035	0.490	0.960	1.000

1 See the last paragraph of page 11 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	$ 10,262	$ 11,330	$ 11,444	$36
Non-Medicare	Non-Medicare	20,524	24,615	22,888	36
Non-Medicare	Medicare w/ Part D, A&B assigned	16,029	20,676	16,758	36
Non-Medicare	Medicare (Other) [1]	14,855	20,485	21,815	36
Medicare w/ Part D, A&B assigned	None	$ 7,905	$ 9,322	$ 5,314	36
Medicare w/ Part D, A&B assigned	Medicare w/ Part D, A&B assigned	14,146	18,693	10,628	36
Medicare w/ Part D, A&B assigned	Non-Medicare	16,093	19,144	16,758	36
Medicare w/ Part D, A&B assigned	Medicare (Other) [1]	12,498	18,477	15,685	36
Medicare (Other) [1]	None	$ 6,582	$ 9,132	$ 10,371	36
Medicare (Other) [1]	Medicare (Other) [1]	11,617	18,310	20,743	36
Medicare (Other) [1]	Non-Medicare	14,771	18,955	21,815	36
Medicare (Other) [1]	Medicare w/ Part D, A&B assigned	12,349	18,479	15,685	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 JUNE 30, 2011

AGE GROUP	FACULTY	STAFF[1]	ADMINISTRATOR	TOTAL
Under 20	0	0	0	0
20 – 24	0	0	0	0
25 – 29	4	0	1	5
30 – 34	8	0	3	11
35 – 39	16	0	9	25
40 – 44	30	0	5	35
45 – 49	31	0	7	38
50 – 54	24	4	16	44
55 – 59	56	6	11	73
60 – 64	39	1	12	52
65 – 69	16	0	3	19
70 & Over	4	0	1	5
Total	228	11	68	307
Average Age	53	56	52	53
Average Service	13	32	10	13

1 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 JUNE 30, 2011

	FACULTY		STAFF		ADMINISTRATORS		TOTAL	
	RETIREES [1]	SPOUSES	RETIREES[1]	SPOUSES	RETIREES[1]	SPOUSES	RETIREES[1]	SPOUSES
Under 50	0	0	0	0	0	1	0	1
50 – 54	1	3	0	1	1	2	2	6
55 – 59	0	6	4	2	4	2	8	10
60 – 64	11	12	11	5	7	4	29	21
65 – 69	33	16	12	6	11	6	56	28
70 – 74	36	16	10	8	7	7	53	31
75 – 79	31	23	14	4	14	6	59	33
80 & Over	48	15	43	6	15	6	106	27
Total	160	91	94	32	59	34	313	157
Average Age	75	72	77	71	73	70	75	71

1 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 retired 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. Staff (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[1], 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.

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

Benefits for Retired Participants

MEDICAL / DRUG	BLUE CROSS	KAISER
Lifetime Maximum	None	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 underwrites retirees separately from actives. As a result, costs were based on in-state and out-of-state premium rates in effect within Fiscal Year 2011/2012 with trend adjustment to reflect actual underlying experience.

   b. Kaiser and EAP costs were based on premiums in effect within Fiscal Year 2011/2012. 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 Classified demographic rates for mortality, turnover, and retirement were updated to those provided from the CalPERS study of employer experience for the ten years ending June 30, 2007.

   b. The age relativity factors were updated.

   c. Initial medical trend rates were increased, the grading periods were lengthened and the ultimate trends were lowered.

   d. Spousal coverage assumptions and migration rates were updated to reflect current census information.

[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 following **Plan Amendments** adopted for this valuation are as follows:

   a. Dependent age definition was extended to age 26.

   b. The Blue Cross lifetime maximum limit was removed.

   These changes were incorporated into the 2011/2012 premium rates with a small cost impact. For this valuation, we did not separately measure the change as a result of these amendments.

5. 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.

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

7. 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.

8. We relied on the premium amount attributed to each retiree to determine his/her plan option, spousal coverage and Medicare status.

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.

SECTION V NOTES TO AUDITOR *(CONTINUED)*

10. The Patient Protection and Affordable Care Act (PPACA) was signed into law on March 23, 2010. PPACA's 40% excise tax applies to all health plans and the District will likely be affected by it in the future. The tax is due to take effect in 2018 and is levied on insurers and plan administrators of high cost plans (as determined based on published thresholds). There are still significant uncertainties regarding: how the tax will be calculated (e.g., options to aggregate different thresholds for various participant types); how much of the tax will be passed to the District; and exactly when benefit costs will exceed the thresholds.

    The amount shown in Exhibit 1A's footnote was calculated assuming that all the tax would be passed to the District and that the current participant cost-sharing structure would continue. This represents our best estimate of the effect of the excise tax on the District's obligation at this time, but has not been formally included in the District's APBO.

11. Several early retirement windows were negotiated to take effect subsequent to the valuation date, whereby Bridge plan benefits would be extended to those retiring at minimum age 55 with 10 or more continuous years of full-time service. We have been informed no participants have elected coverage under these windows as of the report date.

Employee Group	Retirement Window
Miscellaneous, Supervisory and Confidential	July 1, 2011 through June 30, 2012
Faculty	November 1, 2011 through June 30, 2013
Staff (CSEA) [1]	November 1, 2011 through June 30, 2013

We are unaware of any other events subsequent to June 30, 2011, the valuation date, that could materially affect the results presented.

[1] CSEA employees hired after February 15, 1982 are otherwise not eligible for Bridge benefits.