

TOWN OF SAN ANSELMO  
STAFF REPORT

March 18, 2008

For the meeting of March 25, 2008

TO: Town Council

FROM: Janet Pendoley, Finance & Admin Services Director

Subject: Contract for GASB 45 Actuarial Study

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**RECOMMENDATION**

That Council receive the GASB 45 information and approve staff's recommendation of selection of Steven T. Itelson, F.S.A, Consulting Actuary for the GASB 45 Actuarial Study for the Town of San Anselmo.

**BACKGROUND**

The Government Accounting Standards Board (GASB) in their Statement #45 requires that any government entity providing "other post-employment benefits" (OPEB) must value these liabilities and disclose them on their government-wide balance sheet information. This includes all retiree healthcare benefits (medical, dental or vision) and other benefits such as retiree life insurance or long term care insurance. The Town does not supply any other insurance benefits besides providing a flat amount toward retiree medical care, currently set by bargaining units' Memoranda of Understanding at \$225 per month.

Mandated disclosure of OPEB liabilities for U.S. public employers starts in fiscal years beginning in 2007 through 2009. The time frame for required compliance is based on size of revenues. The Town of San Anselmo's date of compliance is fiscal year 2009-2010.

GASB 45 allows use of an actuarial study for up to three (3) years for agencies with fewer than 200 covered participants. The employer must collect employee data within two years of the start of the period of use.

GASB does not require that government agencies pre-fund OPEB through an irrevocable trust. If the Town chooses to continue with its current pay-as-you-go method, in 2009-10 it will be required to book a one-time liability for the upcoming year's cost (currently at \$75,300) as of June 30, 2010, subject to later adjustment based on future actuarial numbers.

The Town may also need to disclose the remaining unfunded portion of OPEB as a liability in the GASB #34-required section of the annual audit report entitled "government-wide financial statements." While the actuarial may determine this to be a sizeable liability, it is important to note that it will appear in the section that also includes large infrastructure assets and other adjustments also required by GASB #34.

**DISCUSSION:**

Conducting an actuarial study to determine the magnitude of the liability is the first step in complying with GASB requirements. Over the past several months, staff has been compiling the required data for the OPEB actuarial to be completed. This includes information for both retirees as well as current employees. The information includes date of hire, date of birth, and other personal information. The necessary information also includes a detailed description of the medical plan for both current employees and retirees.

The Town currently pays a flat amount of \$225 towards each of its 24 retirees' PERS medical plan. The pay-as-you-go cost for this benefit for 2007-08 is \$75,300.

Staff has received proposals from two firms to perform the actuarial. While reviewing the proposals, staff contacted each of the firms to discuss their qualifications, time frames, and required information for performing the actuarial. The bids (see attachments 1 and 2) are \$6,500 from Steve Itelson and \$10,500 from Bartel Associates LLC.

**FISCAL IMPACT:**

Should Council approve staff's recommendation to contract with Steve Itelson, the cost of the actuarial would be \$6,500 and well within the amount established for this project in the 2007-08 adopted budget.

Respectfully submitted,



Janet Pendoley  
Finance & Admin Services Director

Attachments:            Attachment #1 Steven Itelson, F.S.A. Proposal  
                                 Attachment #2 Bartel Associates, LLC Proposal

RECEIVED

JAN 23 2008

Town of San Anselmo

**STEVEN T. ITELSON, F.S.A.**  
CONSULTING ACTUARY  
1309 Diamond Street  
San Francisco, CA 94131  
(415) 648-8589  
email: [itelson@comcast.net](mailto:itelson@comcast.net)

January 21, 2008

Ms. Debra Stutsman, Town Manager  
Town of San Anselmo  
525 San Anselmo Avenue  
San Anselmo CA 94960  
*Via email and land*

**Re: Proposal for Actuarial Analysis of Retiree Health Benefits**

Dear Ms. Stutsman:

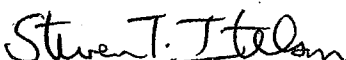
I am pleased to submit this proposal to provide consulting services on the retiree healthcare program for Town of San Anselmo employees. I will do a complete actuarial valuation pursuant to Governmental Accounting Standards Board (GASB) Statement Number 45.

I have attached my proposal, which includes an introduction, a description of services, a description of my firm, a resume, a page showing summaries of projects I have done for large public agencies, and five references.

I serve public agencies throughout California. My clients include water, sanitary, school and fire districts and other agencies. I work with Mid-Peninsula and Sacramento Suburban Water Districts, and Modesto and El Dorado Irrigation Districts. Novato Unified, Healdsburg Unified, San Mateo Foster City, South San Francisco and Sierra Unified are among my school district clients. A list of current clients is included in the proposal. New clients whose report is not yet completed are not on this list. I have been retained by the City of Novato and am awaiting participant data to begin that project.

My firm is a sole proprietorship; I am the owner, consulting actuary, and sole current employee. I will do all work on this project. I am a Fellow of the Society of Actuaries, Member of the American Academy of Actuaries, and an Enrolled Actuary.

Sincerely,



Steven T. Itelson  
Owner and Consulting Actuary

ATTACHMENT #1

## INTRODUCTION

My firm is fully qualified to perform retiree healthcare funding studies; such studies have been the primary source of revenue for my firm since inception in 1991. I did such studies with previous actuarial employers as far back as 1984. I published an article about retiree medical funding in public agencies in *Benefits Law Journal* in 1991. This article was reprinted in the Society of Actuaries *Pension Forum*. I reviewed the GASB proposed standards on retiree health and pointed out actuarial errors in their methodology to the Board's staff. I testified at the GASB hearing on those standards in 2003. I therefore have the necessary expertise on Statements 43 and 45. The attached Description of the Firm lists public agencies for which I have performed retiree healthcare studies. References are also attached.

In recent years, all of my actuarial work has been for public agencies, almost all of which has been retiree health valuations such as San Anselmo needs. My clients are generally in the California Public Employees' Retirement System (PERS) or the California State Teachers' Retirement System (STRS) for pensions. I am current on the relevant standards which apply to public agencies.

I am especially well qualified among actuaries in communicating results to my clients. My actuarial clients praise my clear explanations of concepts and ability to work with their staff members of varying educational background. I have presented pension and retiree healthcare valuation reports to Retirement Boards, School Boards, and other administrative bodies. I have testified in an arbitration hearing in San Jose and for a Wyoming State Senate committee.

I was actuary for the San Jose Police and Fire Retirement Plan from 1983 to 1990 when employed by the Segal Company. During that time I did pension and retiree medical valuations and evaluated many proposals for changes in benefits. I visited the union halls to help police officers and fire fighters understand the actuarial valuations that set both employer and employee contribution rates. After I left Segal and started my own firm, City management retained me to price benefit changes and to attend bargaining sessions. I was trusted by both bargaining groups and the City. When the City switched actuaries in 1999, the police and fire groups retained their own actuary.

In 1998, I performed a retiree mortality and pre-retirement decrement study for the San Francisco Employees' Retirement System (SFERS). This System covers about 30,000 employees and 16,000 retirees and beneficiaries. Probabilities of retirement, withdrawal, disability, and pre-retirement death differ among six different employee groups: police, fire, Municipal Railway operators, crafts jobs, other males, and other females. Each of the groups had "old plan" and "new plan" members, and so there were a total of 12 separate groups studied.

SFERS had a national actuarial firm for its pension valuations, but chose me to do this study as a subcontractor. My work was discussed with that firm and with the SFERS staff actuary. The staff actuary had been concerned that other plans were updating mortality tables, while theirs had not been revised for years. Although mortality in general is improving, I demonstrated that the standard tables used by SFERS were still conservative, predicting fewer retiree deaths than were occurring. I also got SFERS to

adopt mortality tables for police and fire disability retirees that were based on comparable data from CalPERS; the prior stable was of unknown origin and did not fit the System's experience.

My small firm is uniquely qualified to perform the retiree healthcare valuation you have requested. I am a fully qualified actuary with experience doing just the type of study and just the type of report you desire. For over 15 years almost all of my work has been for public agencies. My written and oral communication skills are excellent. Please let me know if you need any additional material to evaluate this proposal.

## DESCRIPTION OF PROPOSED SERVICES

This project requires the actuary to perform calculations, write a report, and meet with San Anselmo to explain the results. The first step is to collect data. For both current employees and retirees, I will need birth dates, gender, information on health coverage and so forth. I will send a data request once retained.

You explained that San Anselmo pays \$225 towards retiree medical premiums for both Police and Miscellaneous retirees. However, the PERS Minimum Employer Contribution (MEC) applies. This amount is \$97 for 2008 and is indexed to the medical component of the Consumer Price Index thereafter. It will be assumed to exceed the \$225 cap in approximately 20 years. There are about 35 Miscellaneous and 25 Police employees and 25 retirees. Pension benefits for both groups are lower if hired after January 2006. For Police the benefits are 3% at 50 before that date and 3% at 55 if hired after. For Miscellaneous, the pension formulas are 2.7% if hired before the date and 2% at 55 if hired afterwards. Each of these groups will be assumed to have different patterns of retirement.

### Actuarial Method

The next step is to select actuarial methods and assumptions. *GASB Statements No. 43 and 45* require use of one of six actuarial cost methods. Actuarial assumptions determine the present value of future benefits; actuarial methods allocate those amounts to time periods. I intend to use the Projected Unit Credit actuarial method because the cost allocation is so straightforward. If the District will use the new PERS trust for funding, I am required to use the complex and difficult to explain entry-age normal cost method. PERS is the only trustee that does not accept all of the allowable GASB methods. I will need an extra half hour of time in your Board meeting to explain this method, if Board members want to understand the actuarial liability that is to be disclosed and is part of the expense.

*GASB Statement No. 45* has an Annual Required Contribution level, determined as the Normal Cost plus amortization of unfunded Actuarial Accrued Liability. The amortization can be over as long as thirty years, with payments increasing in dollars but level in relation to payroll. The total contribution will be expressed as a level percentage of covered total wages. Triennial actuarial valuation will be required; in the off-years, the Town will contribute the same percentage of payroll as determined in the prior actuarial study. These standards will apparently not apply until the fiscal year 2009-10; effective dates depend on revenue and should be discussed with auditors.

### Actuarial Assumptions and Results

Actuarial assumptions are needed for the analysis. Such assumptions include rates of premium increase, investment yield, and rates at which members leave the work force. These decrements include service and disability retirements, death, and withdrawal.

Mortality rates after retirement are also needed. All economic assumptions must use the same underlying general inflation level.

I have left a discussion of assumptions and methods out of this proposal for brevity. I will send a letter on assumptions after receipt of participant data. This letter will use your employee data and the PERS assumptions to show you how many employees are projected to die, quit, or retire (service or disability) over their working careers. This gives you a chance to demonstrate that turnover is lower or higher than "standard." Once assumptions and methods are selected, I will run the valuations. I will produce year-by-year projections of the numbers retired and the expected premiums paid by San Anselmo for 20 years for each scenario. The Statement 45 Annual Required Contributions will be shown. I will send a letter summarizing my results. After we discuss these results, I will run any other needed scenarios for inclusion in the report.

## **Report**

I will do a full report showing the results of my computations. The sections of the report will include:

- Summary
- Introduction
- Accounting Standards
- Valuation Results (including year-by-year projections)
- Demographic Projections
- Appendices
  - Glossary
  - Actuarial Assumptions
  - Participant Census
  - Plan Summaries

These sections are standard in my retiree medical reports for first-time clients. Note that in subsequent valuations I add a section summarizing my abridged experience review to see if assumptions should be modified. Both the Summary and Valuation Results sections will show the items for disclosure required by Statements 43 as well as the components of the expense under Statement 45.

## **Fees**

This project includes the full report described above, as well as letters discussing assumptions and summarizing results. I am including three scenarios in my base fee. These can be alternative sets of assumptions or benefits. The alternate scenarios can be shown in separate letters or in the report, at the Town of San Anselmo's option. The basic fee includes attending one meeting with employees or to present the report to the Board.

If I am allowed to use the Projected Unit Credit Method, my fee for this project will be \$4,600. The fee includes computer time, travel expenses, postage, photocopying, and all other overhead. Any telephone discussions needed to explain results and answer questions are also included. It is a guaranteed, fixed fee to cover all work described in this proposal.

If I must use the Entry-Age Normal method, my fee will be \$6,300. All other conditions of the prior paragraph still apply. The higher fee is needed only if San Anselmo decides to use PERS for funding.

Hours spent on additional work are categorized as Consulting Actuary, Actuarial Assistant, or Clerical time. Clerical time is minimal on most projects, and includes primarily time on layout, photocopying, faxing, and mailing. Actuarial assistant time includes work with participant data, benefit calculations, running and making changes to existing software. Consulting actuary time includes review of Assistant-level work, client communications, and meeting attendance. Travel time is charged at 50% of the Consulting Actuary rate.

The rates through 2008 are \$250 per hour for Consulting Actuary, \$130 for Actuarial Assistant, and \$25 for Clerical. Time is recorded in quarters of hours. Telephone consultations of less than 20 minutes are not billed.

### **Timing**

San Anselmo has not set a schedule for this project. I expect to send a letter on assumptions about three weeks after receipt of participant data. About five weeks after you have selected set(s) of assumptions, I will send a letter summarizing results. If you want any additional scenarios to be included in the full report, they will be run. The full report will be mailed about one week later. This approximate schedule can be adjusted if needed. However, due to prior commitments, I am not able to do any work except contractual arrangements and to send a request for data before April 10, 2008.



## DESCRIPTION OF THE FIRM

**Steven T. Itelson, Consulting Actuary**, is a sole proprietorship which is a licensed business in San Francisco. The firm consists solely of Mr. Itelson, who is a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, and an Enrolled Actuary. The office is at 1309 Diamond Street, San Francisco CA 94131-1823, with phone number (415)648-8589. A resume is included in this proposal.

Public sector pension and retiree medical programs have been the focus of Mr. Itelson's career for 20 years. He was actuary for Marin County's retirement plan from 1979 to 1990; he served as the Retirement Board's actuary for San Jose Police and Fire from 1983 to 1990 and worked with San Jose management on union negotiations and other issues from 1991 to 1999. Mr. Itelson served as actuary for the Wyoming Retirement System and the North Dakota Public Employees' Retirement System from 1987 to 1990. He also worked with the California State Teachers' Retirement System and the retirement programs for San Francisco and Oakland City employees. A separate page shows work done on major public sector retirement systems. Mr. Itelson's innovative approaches for partial funding of retiree medical benefits for public plans are described in his article in *Pension Forum*; he began using these methods in 1984.

The firm was started in April 1991 after Mr. Itelson left Milliman & Robertson. Since its founding, over 95% of revenue has come from the public sector. Mr. Itelson's clients for retiree medical funding studies are shown below. Some of these agencies have had periodic valuations by the firm for 15 years. Clients whose work is in progress have not been listed below.

El Dorado Hills Fire Department  
El Dorado Irrigation District  
El Monte City School District  
Fairfield-Suisun Sewer District  
Healdsburg Unified School District  
Kingsburg Elementary School District  
Mid Peninsula Water District  
Modesto Irrigation District  
Novato Unified School District  
Oro Loma Sanitary District  
Pacifica School District  
Regional Transportation District (Reno)  
Riverdale Unified School District.  
Sacramento Suburban Water District  
Sacramento Regional Transit District  
San Mateo Foster City School District  
Santa Clara Central Fire Protection District  
Sierra Unified School District  
South Bayside System Authority  
South San Francisco Unified School District  
State Bar of California  
Stopwaste.org  
Union Sanitary District  
Vallejo City Unified School District  
Willows Unified School District

# RESUME

## EDUCATION

Harvey Mudd College, B.S., Mathematics

San Francisco State University, M.A., Mathematics

## ACHIEVEMENTS AND AWARDS

Fellow of the Society of Actuaries

Member of the American Academy of Actuaries

Enrolled Actuary

"Health Care Inflation," long letter to editor, *Society of Actuaries' Pension Section News*, October 2000.

Co-author of "Financing Retiree Benefits in Municipalities," *Society of Actuaries' Pension Forum*, September 1991 (reprinted from *Benefits Law Journal*, Winter 1990-91)

Published "Selection of Interest Assumptions for Pension Plan Valuation," part of the Society of Actuaries examination syllabus, 1988 (updated 1990)

## WORK EXPERIENCE

Mr. Itelson is a self-employed Consulting Actuary in San Francisco. His areas of expertise are defined benefit pension plans and retiree medical benefit funding issues. He has extensive experience in both public and private plan design, valuation, and experience studies. He worked for Milliman & Robertson, Inc., from 1990 to 1991. Prior to joining M&R, he had nearly 12 years of service with The Segal Company and spent four years with the Wyatt Company. In addition to his actuarial practice, Mr. Itelson has been a part-time community college mathematics instructor since 1991.

## MAJOR PUBLIC SECTOR PROJECTS

### SAN FRANCISCO CITY AND COUNTY RETIREMENT SYSTEM

- 1998-99      Review of pre-retirement decrements and retiree mortality. Working as subcontractor, I interfaced with System's consulting actuarial firm.
- 1990      Backup Actuary. Did full reviews of all components of salary scales and family composition assumptions. Changed to market-related asset value.
- 1987      Helped System implement IRC 414(h)(2) pickup of employee contributions.

### CALIFORNIA PERS

- 1985      Supervisory Actuary. Report to Board on IDDA, asset valuation, and other topics.

### NORTH DAKOTA PERS

- 1987-90      Supervisory Actuary. Annual valuations, experience analyses, pricing of dozens of benefit improvement proposals.

### WYOMING RETIREMENT SYSTEM

- 1987-90      Supervisory Actuary. Annual valuations; priced proposed benefit improvements.

### MARIN COUNTY EMPLOYEES RETIREMENT ASSOCIATION

- 1981-90      Supervisory Actuary. Separate valuations for County, small agencies, city, special districts.
- 1986      First County to recognize contingency reserve in assets, eliminating potential problem with US Health and Human Services that plagued all other 1937 Act Counties in 1989.
- 1981      First 1937 Act County to use market-related asset valuation method for equities.

### SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

- 1992-99      Worked for City management in negotiations to provide benefit improvements.
- 1983-90      Supervisory Actuary. Biennial valuations, experience analyses, dozens of benefit improvement pricings.
- 1989      Convinced Board, City, and bargaining units to change City Code which specified actuarial valuation method that was inherently unstable.
- 1984      Developed rolling 10-year term funding method for retiree medical, resulting in benefit negotiated for current and future retirees.

### VARIOUS CITIES, SCHOOL DISTRICTS, AND OTHER AGENCIES

- 1987 to Date      Supervisory Actuary for dozens of valuations of current and proposed retiree health and welfare programs. Enabled employers and bargaining units to negotiate to provide some level of benefits where none existed, and to price existing benefits and possible changes. Reports for school districts includes calculations to comply with Assembly Bill 3141.

Note: Projects done prior to April 1991 were as an employee of national actuarial consulting firms.

## REFERENCES

All clients shown below are for public agency retiree health valuations. My standard retiree health study consists of a valuation to determine expenses or contribution rate, year-by-year projection of retirees, benefits, and assets, and a full report as described.

### **City of San Jose**

Alex Gurza, Employee Relations Director

San Jose City Hall

200 East Santa Clara St.

San Jose, CA 95113

(408)535-8155

Fax: (408)292-6436

email: [alex.gurza@sanjoseca.gov](mailto:alex.gurza@sanjoseca.gov)

San Jose operates its own pension plans – it is not in PERS. I was the actuary for the Police and Fire Retirement Board from 1983 to 1990, and then worked for San Jose city management 1992 to 1999. I consulted during rounds of collective bargaining with the Police and Fire units, attending all bargaining sessions on retirement issues. I priced proposals from both union and management, although final numbers would ultimately be done by the Retirement Board's actuary. My 1984 "invention" of the rolling term funding method enabled the parties to negotiate for retiree medical benefits in 1984. There were many other issues over the years. These included special benefits for police and fire chiefs hired at older ages, early retirement incentives, reciprocity with other California retirement systems, as well as review of work done by the actuaries for the two City pension plans. I also testified at arbitration hearings in 1992.

### **Healdsburg Unified School District**

Steve Barekman, Director Business Services

1028 Prince Street

Healdsburg, CA 95448

(707) 431-3406

Fax: (707) 431-3402

email: [sbarekman@husd.com](mailto:sbarekman@husd.com)

Retiree health program varies by representation unit and by dates employed and retired. Very complicated benefit structure. There are about 230 employees and 150 retirees. The District has been my client since 1996. Mr. Barekman was hired recently and we have just begun to work together.

### **Novato Unified School District**

Ms. Marla Blackledge, CFO

1015 Seventh Street

Novato, CA 94945

(415)897-4298

Fax: (415) 898-5790

email: [mblackledge@nUSD.org](mailto:mblackledge@nUSD.org)

Benefits are medical premiums limited by a \$200 cap. District is not in PERS for medical benefits. District payment cease at age 65. Partial benefits for lower service. Turnover was assumed to be 200% of STRS and PERS.

**Santa Clara County Central Fire Protection District**

Mr. Michael E. Rock, Director of Business Services

14700 Winchester Blvd.

Los Gatos, CA 95032-1818

(408)341-4416 fax: (408)378-4079 email: [Mike.Rock@cnt.co.santa-clara.ca.us](mailto:Mike.Rock@cnt.co.santa-clara.ca.us)

First retiree medical valuation was in 2003. I have answered their PERS pension questions since 1995, including issues on merger with other agencies and costs of proposed benefit improvements. There are about 250 employees and 120 retirees. Disability incidence was reviewed and found to be 50% higher at this District than PERS fire agencies in the aggregate.

**Modesto Irrigation District**

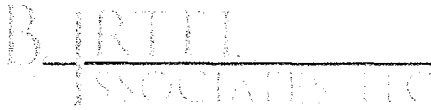
Mr. K.C. Winstead, Senior Retirement Administrator

1231 Eleventh Street

Modesto, CA 95354

(209) 526-7546 fax: (209) 557-1405 email: [KCW@mid.org](mailto:KCW@mid.org)

I did retiree medical valuations as of 2002, 2005, and 2007. There are about 420 employees and 230 retirees covered by the plan. Medical, dental, and vision benefits are provided. The District maintains its own pension plans and uses a different actuarial firm for pension valuation services, although I have done some pension consulting here. This client has researched retiree health funding vehicles, set up a Trust, and written formal Plan documents. I have reviewed Plan documents and done some research on retiree health issues for this client. Sometimes this District has needed work done with quick turnaround, which I have been able to meet. One Board member who said he has listened to many actuaries said I was the best at communicating.



January 28, 2008

Debra Stutsman  
Town Manager  
**Town of San Anselmo**  
525 San Anselmo Avenue  
San Anselmo, CA 94960

**Re: GASB 45 - Other Post Employment Benefits (OPEB) Actuarial Study Fee Estimate**

Dear Ms. Stutsman:

Bartel Associates would be pleased to provide the Town of San Anselmo actuarial consulting services. This letter summarizes the project scope and our fee estimate associated with the Town's retiree healthcare obligation.

**Background**

The Town participates in the CalPERS retirement program providing Miscellaneous employees the 2%@55 benefit (2.7%@ 55 if hire date is before 7/1/06 or 2/1/07 for non-sworn Safety employees) and Safety employees the 3%@55 benefit (3%@50 if hire date is before 2/1/07).

The Town also provides retiree medical benefits through the CalPERS healthcare program (PEMHCA) for eligible employees who retire from the Town. The Town provides a contribution \$225 per month for retiree medical benefits. The Town does not provide contributions for retiree dental, vision, or life insurance benefits. The Town has approximately 60 active employees and 26 retirees receiving healthcare benefits.

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pensions," called "OPEB" by GASB, in June 2004. I was a member of GASB's task force providing background information to the Board on this issue. I recently served as a consultant to Governor's Public Employee Post-Employment Benefits Commission.

The Town currently pays for OPEB on a pay-as-you-go basis. GASB has made it clear the Town will need to recognize its retiree healthcare promise as employees render service rather than during retirement. It is important to note the new GASB 45 OPEB standards will likely result in net obligations significantly different from the Town's current pay-as-you-go method.

**Valuation Process**

Our typical valuation is a four step process consisting of:

- Requesting and reviewing participant data and plan information
- Meeting with the Town to discuss valuation methods and assumptions
- Valuation processing

ATTACHMENT #2



- Meeting with the Town to discuss valuation results, including:
  - Benefit Obligations
  - Annual Required Contribution
  - Annual OPEB Cost
  - Expected Net OPEB Obligation

We will provide the Town a discussion outline including the above information. When the Town adopts GASB 45, the Town will likely need us to prepare a formal valuation report including the valuation results and possibly a draft GASB 45 footnote. Some agencies also request an Executive Summary, which provides the study results in an easily understandable format. If the Town pre-funds retiree healthcare benefit through the California Employers' Retiree Benefit Trust (CERBT), it will need to submit an actuarial certification along with an Excel spreadsheet containing valuation information to CalPERS and a formal valuation report.

#### **Our Approach**

We believe that there are two levels to a GASB 45 actuarial valuation. The first level is technical compliance with GASB 45. Some public employers may hire an actuary to assist only with technical compliance with the standard, limiting the scope of services to preparing the required financial reporting and disclosure.

The second level goes beyond reporting and disclosure issues, and includes assisting management with an understanding of GASB 45, the actuarial assumptions and methods, the valuation results, and the financial statement impact, including a review of the plan design and participants.

Our recommended approach to GASB 45 studies includes both consulting levels, meeting with the agency staff and management at least twice during the valuation process. We would first meet with the Town to review employee data, plan provisions, and actuarial assumptions. This will ensure that we have the proper information to begin the valuation. We would meet a second time to review the valuation results and their financial impact. On occasion, the valuation can be completed with only one meeting to present results. The Town must also understand that that without an initial planning we may independently select the actuarial assumptions used for the valuation.

#### **Estimated Fees**

Our fee to prepare a GASB 45 valuation will be approximately \$10,500. If any of the project steps below are not needed, our estimated fee will be lower.

<u>Project Elements</u>	<u>Estimated Fee</u>
GASB 45 Actuarial Valuation	\$ 6,500
Discount Rate Sensitivity (no-funding and funding)	600
Contribution Cap Sensitivity (up to 3 increase rates)	600
Results Breakdown (Miscellaneous & Safety)	400
Methods & Assumptions Meeting	1,200
Preliminary Results Meeting	<u>1,200</u>
Total	\$ 10,500



Please note:

- We will bill the Town at the following hourly rates:

President & Actuary	\$300	Actuary	\$225
Consultant	\$200	Actuarial Analyst	\$175
Actuarial Trainee	\$150	Administrative Support	\$75
- Our study will include the Town cost for retiree medical benefits and will not include dental, vision, or life insurance benefits.
- Results will be shown separately for Miscellaneous and Safety employee groups.
- Costs and liabilities will be provided using one funding method and one set of assumptions including 2 investment return scenarios (not funded and funded).
- We will have 2 meetings with the Town: one to review the data, plan provisions, methods, and assumptions and a second to review preliminary valuation results. If we believe we can complete the valuation with one meeting we will do so. However, normally our recommended approach is to have 2 meetings. If the Town wishes to minimize costs and have only one meeting or no meetings, our fee will be approximately \$1,200 less per meeting. If the Town forgoes the first meeting to discuss methods and assumptions, the Town should understand that we will independently select the actuarial methods and assumptions. Please note that excluding suggested meetings places the burden of understanding some complex topics on the Town without the benefit of face-to-face discussions. This can lead to additional questions and possibly higher fees.
- We based our estimated fee on our best guess of the amount of time required for the project. This represents the likely cost of the study, but it is possible that unexpected work or complexities may arise that will require additional time. We understand the Town's budgeting needs and agree not to bill more than \$12,000 in fees, assuming 2 meetings with the Town unless the project scope changes.
- Provision for miscellaneous expenses (for travel, computer, outline production, etc.) are included in the above hourly rates.

The above fees are estimates and may be higher if:

- The retiree healthcare promise differs from the information provided and summarized above.
- Participant data is not relatively clean and free from internal inconsistencies or is not provided in electronic format (Excel workbook).
- Results are needed separately for additional employee or bargaining groups;
- Results are needed for additional assumptions, funding methods, or alternative plan designs.
- The Town requests more than 2 meetings to discuss actuarial methods and assumptions and to present the study results, a presentation to the Town Council, a meeting with outside auditors, or meetings with bargaining groups. An additional meeting may cost, for example, \$600 for a 2-hour presentation or \$1,500 for a 2-hour meeting that requires 3 hours of preparation or additional work.
- Our result outlines will include all the information needed for the Town's financial statement. If the Town would like us to prepare a formal valuation report, executive summary, or draft footnote, our estimated fees would be \$2,000 for a formal valuation report, \$1,500 for an executive summary, and \$1,000 for a draft financial statement footnote.
- If the Town pre-funds retiree healthcare benefit through the CERBT, in addition to a formal valuation report, it will need to submit an actuarial certification and an Excel spreadsheet





containing valuation information to CalPERS. Our fee to prepare the certification and Excel spreadsheet will be approximately \$500.

### **Data Requirements**

To complete the GASB 45 study, please provide:

- Summary of plan provisions and copies of the most recent MOUs for bargained employee groups, if any, and agreements for unrepresented groups.
- Total pay-as-you-go costs for the last 3 complete fiscal years (2004/05, 2005/06, 2006/07) and an estimate for the fiscal year ending June 30, 2008.
- The Town's CalPERS (PEMHCA) healthcare program contract or resolution joining PEMHCA.
- Active and retired participant data in electronic format (Excel workbook):
  - Active Data: name, employee number, sex, birth date, hire date, medical plan, single/2-party/family coverage, CalPERS medical plan code, CalPERS pension plan (Miscellaneous, Safety), employee classification (full-time or part-time), bargaining or employee group, spouse's birth date (if available), and annual base (or PERSable) compensation. Include any active employees who have waived coverage or receive a cash reimbursement. Note if hours for part-time employees are less than or greater than 1,000 hours to determine CalPERS eligibility.
  - Retiree Data: name, employee number, sex, birth date, retirement date (if available), medical plan, single/2-party/family coverage, CalPERS medical plan code, CalPERS pension plan (Miscellaneous, Safety), bargaining or employee group, spouse's birth date (if available), portion of premium paid by the Town, portion of premium paid by the retiree, and whether the participant is a former employee or surviving spouse. Include retirees (including surviving spouses), if any, who have retired under CalPERS and participate in PEMHCA even if they are not eligible for a Town contribution or have waived coverage.
  - The Town may request a data extract of its CalPERS PEMHCA database by calling the CalPERS Employer Contact Center at 888-225-7377. This data extract may be helpful to the Town in assembling the requested employee census information. (We are available to assist if the Town needs our help to merge and reconcile various data sources, but this will result in additional fees.) The Town should only provide us with one active and retiree data file and not separate files from the Town and CalPERS. The Town can:
    - Prepare its own data file and use the CalPERS data to review and complete the data requested.
    - Provide the CalPERS data file after reviewing and correcting any misinformation in the CalPERS data extract. (We can download the CalPERS text data into an Excel file for the Town's review if requested.) Note that the CalPERS data extract may not include some of the requested data, such as compensation, employee classification, and bargaining group. In lieu of providing individual pay records, the Town can provide the average pay for Miscellaneous and Safety employees from the last CalPERS contribution report, indicating if the reported amount is semi-monthly pay (reported 24 times per year) or bi-weekly pay (reported 26 times per year).

Debra Stutsman  
January 28, 2008  
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In order to maintain confidentiality, please do not provide Social Security Numbers for the employee number.

We may need additional data, depending on our review of the Town's benefit promise.

We are prepared to begin this project immediately as soon as we receive the above information. Normally the valuation results meeting is set approximately 4-6 weeks after the later of receipt of the above information.

We look forward to working with you and the Town.

Sincerely,

John E. Bartel  
President

c: Doug Pryor, Bartel Associates

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