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December 4, 2015

Sent via e-mail: cthomas@srcs.org

Ms. Chris Thomas
San Rafael City Schools
310 Nova Albion Way
San Rafael, CA 94903

***Proposal to Provide Actuarial Services –
Valuation of Retiree Health Plan under GASB 45***

Dear Ms. Thomas:

As you requested, Milliman, Inc. (Milliman) is pleased to present the San Rafael City Schools with the following proposal to provide actuarial valuation services for the retiree health plans for San Rafael High School District and San Rafael Elementary School District required under GASB No. 45.

PROPOSED SERVICES

Milliman will perform actuarial valuations of the Districts' Retiree Health Plans in accordance with GASB 45. Our valuations will include the following steps:

Program Review. We will review all documents relating the retiree health benefits plans, such as a plan document and/or summary plan description, labor agreements, employee notices, etc. Any ambiguities will be discussed.

Collection of Data. The data required to complete the services will include:

- ◆ Retiree data
- ◆ Employee data
- ◆ Health plan premiums

Review of Assumptions. Assumptions are required to anticipate future events. Both demographic and economic assumptions are needed. Demographic assumptions include employee turnover, retirement rates, spouse and dependent coverage, and mortality rates. Economic assumptions include current claim rates, future increases in health care costs, and a rate of interest to discount future benefits to a present value.

We will review the assumptions used in the prior actuarial valuation and recommend changes if necessary.

Projection of Benefit Payments. Using the census data and assumptions described above, a projection will be done of future retiree health payments. These payments will be discounted by an interest rate to determine the present value of future benefit payments.

Calculation of Implicit Rate Subsidy. Actuarial standards of practice now require measurement of an implicit rate subsidy for community rated health plans. This includes all health plans sponsored by CalPERS. The CalPERS health plans charge the same premiums for retirees who are not yet eligible for Medicare as for active employees. Therefore, the retiree premium rates are being subsidized by the inclusion of active lives in setting rates. (Premiums calculated only based on retiree health claims experience would have resulted in higher retiree premiums.) GASB 45 requires that the value of this subsidy be recognized as a liability in valuations of OPEB costs. To account for the fact that per member health costs vary depending on age (higher health costs at older ages), we will calculate equivalent per member per month (PMPM) costs that vary by age based on the age distribution of covered members, and based on relative cost factors by age. The difference between the age adjusted PMPM costs and the premium amounts charged by CalPERS is the value of the implicit rate subsidy.

Calculation of the Actuarial Liability. The liability for future benefits will be allocated between past and future service. The amount allocated to past service is known as the Actuarial Liability.

Calculation of Ongoing "Normal" Cost. The Normal Cost is the present value of retiree health benefits which can be attributed to one year of service.

Annual Required Contribution. We will determine for each District the amount required to amortize the Unfunded Actuarial Liability based on the District's current amortization method. The normal cost plus the amortization of Unfunded Actuarial Liability equals the Annual Required Contribution.

Financial Reporting Under GASB. We will determine for each District the Annual Required Contribution (ARC) and OPEB Expense for the 2015-2016 fiscal year, and other required disclosures under GASB No. 45. The results of our valuations, required disclosures, and a summary of the assumptions, methods, and data used in our valuations will each be documented in written reports.

DATA REQUIREMENTS AND TIMETABLE

Enclosed is Exhibit 1, which contains the data and informational items required to complete the proposed services. The results will be fully documented in a written report, and the report will be completed within 5-6 weeks from when we receive the census data. If a shorter time frame is required, please let us know.

FEES

We propose to set a fixed fee of \$10,500 per valuation for each District's valuation (\$21,000 total for valuations for both San Rafael High School District and San Rafael Elementary School District).

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If this proposal is acceptable to you, please indicate by having an authorized representative of San Rafael City Schools sign below and return one copy to me. I look forward to working with you on this project. If you have any questions about the proposed services or the data requested, please call me at (415) 394-3740.

Sincerely,



John R. Botsford, FSA, MAAA
Principal and Consulting Actuary

JRB:tah
enc.

Reviewed and Accepted for San Rafael City Schools by:

Name

Date

Chief Business Official
Title

**SAN RAFAEL CITY SCHOOLS
Data Requirements for the
Actuarial Valuations of Retiree Healthcare Benefits**

To complete the actuarial valuations of retiree healthcare benefits, we request your assistance with respect to the data and informational items below.

EMPLOYEE AND RETIREE CENSUS

For each school district, please provide us with the following data as of January 1, 2016, in a spreadsheet (Excel) file.

Active Employees

Name
ID Number
Gender
Birth Date
Hire Date
Employee Group (Certificated, Classified)

Retirees Receiving Health Benefits

Name
ID Number
Gender
Birth Date
Hire Date
Retirement Date
Employee Group (Certificated, Classified)
Health Premiums
- Paid by District
- Paid by Retiree
- Total

FINANCIAL STATEMENTS

For each District, please provide us with a copy of the Notes pertaining to reported OPEB liabilities under GASB 45 in the latest financial statement or CAFR.

BENEFIT SUMMARIES

We have enclosed summaries of benefits for each District. Please review the summaries and indicate if there were any changes made to the benefits.

Summary of Benefits – San Rafael Elementary School District

The following description of retiree health benefits is intended to be only a brief summary. For details, reference should be made to Summary Plan Descriptions, Plan Documents, and employee booklets.

Eligibility

Employees are eligible for retiree health benefits if they satisfy the following requirements:

Classified	Retirees who are at least 55 and have at least 10 consecutive full-time years of service with the District.
Certificated	Retirees who are at least 55 and have at least 10 consecutive full-time years of service with the District.

District Benefits

Classified	The District will pay the minimum monthly premium amount specified by PEMHCA, and the retiree will pay the remaining premium amount. The minimum is \$83.30 per month for 2014.
Certificated	The District will pay the minimum monthly premium amount specified by PEMHCA, and the retiree will pay the remaining premium amount. The minimum is \$77.35 per month for 2014. In addition, the District will pay an additional \$230.00 per month toward the cost of health benefits for five years after retirement or until age 65, whichever comes first.

Survivor Benefits

District's contribution stops after retiree's death, surviving spouse may continue to pay the PEMHCA minimum monthly contribution amount to continue PEMHCA health coverage.

Summary of Benefits – San Rafael High School District

The following description of retiree health benefits is intended to be only a brief summary. For details, reference should be made to Summary Plan Descriptions, Plan Documents, and employee booklets.

Eligibility

Employees are eligible for retiree health benefits if they satisfy the following requirements:

Classified	Retirees who are at least 55 and have at least 10 consecutive full-time years of service with the District.
Certificated	Retirees who are at least 55 and have at least 10 consecutive full-time years of service with the District.

District Benefits

Classified	The District will pay the minimum monthly premium amount specified by PEMHCA, and the retiree will pay the remaining premium amount. The minimum is \$83.30 per month for 2014.
Certificated	The District will pay the minimum monthly premium amount specified by PEMHCA, and the retiree will pay the remaining premium amount. The minimum is \$83.30 per month for 2014. In addition, the District will pay an additional \$276.00 per month toward the cost of medical and dental benefits for five years after retirement or until age 65, whichever comes first for employees who retired before June 8, 2012. For employees who retire after June 8, 2012, the additional amount paid by the District will be \$300 for 10 to 14 years of service, \$400 for 15 to 19 years of service, or \$608 for 20 or more years of service.

Survivor Benefits

District's contribution stops after retiree's death, surviving spouse may continue to pay the PEMHCA monthly contribution amount to continue PEMHCA health coverage.