



November 25, 2009

Evelyn Ong  
Fiscal Operations Manager  
**City of Chula Vista**  
276 Fourth Avenue  
Chula Vista, CA 91910

**Re: Addendum to the June 30, 2007 Retiree Healthcare Plan Valuation Results**

Dear Ms. Ong:

This letter provides an addendum to the City's June 30, 2007 Retiree Healthcare Plan Valuation results. This addendum is provided because the City implemented several early retirement windows during 2007/08 and 2008/09 that were not accounted for in the original valuation results. This addendum provides the 2007/08 and 2008/09 Annual Required Contributions based on the early retirement windows and the June 30, 2007 valuation results.

The June 30, 2007 valuation was based on the City's retiree healthcare plan before implementation of the early retirement windows. In the valuation, the retirees were assumed to pay 100% of their own medical premiums with the City being responsible only for the implied subsidy that arose from the actives and retirees under 65 paying the same blended premium rates. With the implementation of the early retirement windows, the City is paying the single premium rate for a year or two (depending on retirement date) for employees who retired during the early retirement windows.

Included in the June 30, 2007 valuation was an early retirement window study. This study showed results assuming the City implemented an early retirement window and also assuming there would be extra retirements because of the window. Based on information provided by the City detailing the number of employees who actually retired during the early retirement windows, we determined that the actual number of extra retirements was not far off from what we expected in our study under the 10%/2.5% opt-in assumption (10% additional retirements in 2007 and 2.5% additional retirements in 2008). Therefore, we feel the early retirement window study results on pages 37 and 38 of the June 30, 2007 valuation results outline dated November 25, 2009 are appropriate for the City.

**Data**

Results are based on the same census data, plan provisions and medical premiums that were used for the June 30, 2007 actuarial valuation early retirement window study with the 10%/2.5% opt-in assumption.

**Assumptions**

Results are based on the same actuarial assumptions summarized in our June 30, 2007 actuarial valuation results outline, including the following:

- Discount Rate: 4.5% - assumes no pre-funding
- Inflation: 3%
- Aggregate Payroll Increase: 3.25%



- Demographic Assumptions: CalPERS 1997 – 2002 Experience Study
- Healthcare Trend: (Actual 2008 PEMHCA premiums were used)
  - HMO's – 9.7% grading to 4.5% over 9 years
  - PPO's – 10.5% grading to 4.5% over 9 years
- Additional Retirements Due to Early Retirement Window (Scenario 1):
  - 2007 – 10.0%
  - 2008 – 2.5%

**Funded Status on June 30, 2007**

The June 30, 2007 benefit obligations have been revised based on the early retirement window study with the 10%/2.5% opt-in assumption and a 4.5% discount rate:

	<u>June 30, 2007</u>
■ Present Value of Benefits	\$ 19,919
■ Actuarial Accrued Liability	
● Actives	7,606
● Retirees	<u>2,002</u>
● Total	9,608
■ Plan Assets	<u>(0)</u>
■ Unfunded Actuarial Accrued Liability	9,608

**Annual Required Contributions (ARC) for 2007/08 and 2008/09**

The 2007/08 and 2008/09 Annual Required Contributions as a level percentage of payroll, based on the early retirement window study with the 10%/2.5% opt-in assumption, assuming no pre-funding and determined as of the end of the fiscal year are (amounts in 000's):

	<u>2007/08</u>	<u>2008/09</u>
■ ARC - \$		
● Normal Cost	\$ 967	\$ 998
● UAAL Amortization	<u>396</u>	<u>409</u>
● Total ARC	1,363	1,407
■ Projected Payroll	82,144	84,814
■ ARC - % of Payroll	1.7%	1.7%



**Estimated Net OPEB Obligation**

The estimated Net OPEB Obligation calculations based on the early retirement window study with the 10%/2.5% opt-in assumption are as follows: (amounts in 000's):

	<u>2007/08</u>	<u>2008/09</u>
■ Net OPEB Obligation BOY	\$ 0	\$ 684
● Annual OPEB Cost	1,363	1,467
● Estimated Benefit Payments:		
➤ Cash Subsidy	(218)	(364)
➤ Implied Subsidy	<u>(461)</u>	<u>(472)</u>
➤ Total Benefit Payments	(679)	(836)
■ Net OPEB Obligation EOY	684	1,315

**Estimated 2008/09 State Employees Implied Subsidy Transfer for Medical Coverage**

The following illustrates the transfer of the implied subsidy from the City's active employees to the retirees. The amounts below are estimated, and intended to be used for illustrative purposes only (amounts in 000's):

	<u>Before GASB 45</u>		
	<u>Actives</u>	<u>Retirees</u>	<u>Total</u>
■ Total Premium <sup>1</sup>	\$ 8,818	\$ 1,183	\$ 10,001
■ Member Contribution	—	<u>(819)</u>	<u>(819)</u>
■ City Contribution <sup>2</sup>	8,818	364	9,182
	<u>After GASB 45</u>		
	<u>Actives</u>	<u>Retirees</u>	<u>Total</u>
■ Total Premium	\$ 8,818	\$ 1,183	\$ 10,001
■ Member Contribution	-	(819)	(819)
■ Implied Subsidy Transfer	<u>(472)</u>	<u>472</u>	—
■ City Contribution	8,346	836	9,182

<sup>1</sup> Estimated based on the 6/30/2007 participant data.

<sup>2</sup> Assumes the City pays the entire active premium.

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**Actuarial Certification**

As an Enrolled Actuary under ERISA, an Associate in the Society of Actuaries, a Fellow in the Conference of Consulting Actuaries and a member of the American Academy of Actuaries, I certify these results are consistent with generally accepted actuarial principles and practices. We reviewed the data provided by the City for reasonableness, but did not perform an audit and do not make any representation on the accuracy of the data.

Please call me (650-377-1601) with any questions about this information.

Sincerely,

A handwritten signature in black ink that reads 'John E. Bartel'.

John E. Bartel  
President

c: Cathy Wandro, Bartel Associates

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