



## **San Diego County Employees Retirement Association Health Insurance Allowance**

**Government Accounting Standard (GAS) 45  
Actuarial Valuation and Review of Health Insurance Allowance (HIA) Plan as of June 30, 2017**

This report has been prepared at the request of SDCERA to assist SDCERA in administering the Plan. This valuation report may not otherwise be copied or reproduced in any form without the consent of the Board of Retirement and may only be provided to other parties in its entirety. The measurements shown in this actuarial valuation may not be applicable for other purposes.

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*November 9, 2017*

*Gregory J. Bych  
Chief Financial Officer  
San Diego County Employees Retirement Association  
2275 Rio Bonito Way, Suite 200  
San Diego, CA 92108-1685*


*Dear Greg:*


*We are pleased to submit this Actuarial Valuation and Review of the Health Insurance Allowance (HIA) Plan as of June 30, 2017 for funding and financial reporting under Governmental Accounting Standard (GAS) 45. The report summarizes the actuarial data used in the valuation, discloses the Net OPEB Obligation (NOO) as of June 30, 2017, establishes the Annual Required Contribution (ARC) for July 1, 2018 to June 30, 2019 (FY 2019), and analyzes the preceding years' experience. This report was based on the census data provided by SDCERA and the terms of the Plan as communicated to us by SDCERA. The actuarial calculations were completed under the supervision of Thomas Bergman, ASA, MAAA, Enrolled Actuary and Dave Bergerson, ASA, MAAA, FCA, Enrolled Actuary.*

*This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices. To the best of our knowledge, the information supplied in this report is complete and accurate. Further, in our opinion, the assumptions used in this report as described in Exhibit II are reasonably related to the experience of and the expectations for the Plan. The actuarial projections are based on these assumptions and the plan of benefits as summarized in Exhibit III.*

*Sincerely,*

*Segal Consulting, a Member of The Segal Group, Inc.*

By:   
*Paul Angelo, FSA, MAAA, FCA, EA  
Senior Vice President and Actuary*

  
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*JAC/bbf*

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## SECTION 1: Executive Summary for San Diego County Employees Retirement Association Health Insurance Allowance

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### PURPOSE

This report presents the results of our actuarial valuation of SDCERA's Health Insurance Allowance plan as of June 30, 2017 for funding and financial reporting under Government Accounting Standard (GAS) 45. The results are prepared in accordance with the Governmental Accounting Standards, which prescribe an accrual methodology for accumulating the value of other postemployment benefits (OPEB) over participants' active working lifetimes.

### HIGHLIGHTS OF THE VALUATION

- The unfunded actuarial accrued liability (UAAL) as of June 30, 2017 is \$142.7 million, a decrease of \$8.9 million from the UAAL of \$151.6 million, determined in the prior valuation as of June 30, 2016. The primary reason for the change is contributions made towards funding the UAAL exceeding the benefit payments.
- As of June 30, 2017, the ratio of assets to the Actuarial Accrued Liability (AAL) (the funded ratio) is 7%, slightly higher than the ratio of 5% calculated in the prior valuation as of June 30, 2016.
- The funded ratio for the Health Insurance Allowance is much lower than the funded ratio for the statutory retirement benefit (i.e., 77% as of June 30, 2017). This is because, as shown in Chart 3, the initial liability as of June 30, 2007 for the Health Insurance Allowance has only begun to be funded over 20 years effective with the June 30, 2007 valuation, with 10 years remaining on that initial liability as of the June 30, 2017 valuation. It should be noted that in spite of the funded ratio of 7%, the annual contributions that are associated with the initial liability (as well as

subsequent changes in liability) when made over the next 10 years should be sufficient to meet the cash flow required to pay benefits over the next 10 years and to leave some residual assets to pay benefits afterwards.

- The Net OPEB Obligation (NOO) as of June 30, 2017 is \$0. The NOO generally increases if the contributions are less than the ARC. As the contributions were equal to the ARC during the year ending 2017, there was no change to the NOO.
- The Annual Required Contribution (ARC) calculated as of June 30, 2017 remained level at \$19.9 million. The ARC calculated as of June 30, 2016 was also \$19.9 million. As a percentage of payroll, the ARC decreased slightly from 1.65% to 1.59%.
- As of June 30, 2017, the Plan is subject to the new Governmental Accounting Standard No. 74 (GAS 74), which replaced GAS 43. The June 30, 2017 valuation under GAS 74 for financial reporting purposes was provided as a separate report. As of June 30, 2018, the employers will be subject to the new Governmental Accounting Standard No. 75 (GAS 75), which replaces GAS 45. This is the last valuation to be used for GAS 45 financial reporting.

**SECTION 1: Executive Summary for San Diego County Employees Retirement Association Health Insurance Allowance**

*The key valuation results for the current and prior years are shown.*

**SUMMARY OF VALUATION RESULTS**

	<b>June 30, 2017</b>	<b>June 30, 2016</b>
<b>Actuarial Accrued Liability (AAL)</b>	\$153,345,628	\$159,417,107
<b>Actuarial Value of Assets</b>	10,612,786	7,789,709
<b>Unfunded Actuarial Accrued Liability</b>	142,732,842	151,627,398
<b>Funded Ratio</b>	6.92%	4.89%
<b>Market Value of Assets</b>	\$10,612,786	\$7,789,709
<b>Annual Required Contribution (ARC)<sup>(1)(3)</sup></b>		
Normal cost (beginning of year)	\$33,607	\$38,305
Amortization of the unfunded actuarial accrued liability	19,230,104	19,169,800
Adjustment for timing	<u>686,092</u>	<u>684,111</u>
Total Annual Required Contribution, including adjustment for timing	\$19,949,803	\$19,892,216
Covered payroll <sup>(2)</sup>	\$1,253,223,398	\$1,206,940,234
ARC as a percentage of pay	1.59%	1.65%
<b>Total Participants</b>	4,740	4,939
<b>Annual OPEB Cost (AOC) for Coming Year<sup>(4)</sup></b>		
Annual Required Contributions	N/A	\$19,892,216
Interest on Net OPEB Obligations	N/A	0
ARC Adjustments	N/A	<u>0</u>
Total Annual OPEB Cost	N/A	\$19,892,216
AOC as a percent of pay	N/A	1.65%

<sup>(1)</sup> The ARC and AOC calculated in the June 30, 2016 valuation were used to determine the contribution requirement for FY2018. The ARC calculated in the June 30, 2017 valuation will be used to determine the contribution requirement for FY2019.

<sup>(2)</sup> Projected covered payroll for active members as used in the statutory retirement benefit valuation for the San Diego County Employees Retirement Association.

<sup>(3)</sup> In future valuations, the ARC will be referred to as the Actuarially Determined Contribution (ADC).

<sup>(4)</sup> The AOC and NOO are not applicable to GAS 75, which replaces GAS 45 for fiscal years ended after June 30, 2017.

## SECTION 1: Executive Summary for San Diego County Employees Retirement Association Health Insurance Allowance

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### IMPORTANT INFORMATION ABOUT ACTUARIAL VALUATIONS

An actuarial valuation is a budgeting tool with respect to the financing of future projected obligations of a post-retirement health plan. It is an estimated forecast – the actual long-term cost of the plan will be determined by the actual benefits and expenses paid and the actual investment experience of the plan.

In order to prepare an actuarial valuation, Segal Consulting (“Segal”) relies on a number of input items. These include:

- **Plan of benefits.** Plan provisions define the rules that will be used to determine benefit payments, and those rules, or the interpretation of them, may change over time. It is important to keep Segal informed with respect to plan provisions and administrative procedures, and to review the plan description in this report (as well as the plan summary included in our funding valuation report) to confirm that Segal has correctly interpreted the plan provisions.
- **Participant data.** An actuarial valuation for a plan is based on data provided to the actuary by SDCERA. Segal does not audit such data for completeness or accuracy, other than reviewing it for obvious inconsistencies compared to prior data and other information that appears unreasonable. It is important for Segal to receive the best possible data and to be informed about any known incomplete or inaccurate data.
- **Assets.** This valuation is based on the market value of assets as of the valuation date, as provided by SDCERA.
- **Actuarial assumptions.** In preparing an actuarial valuation, Segal projects the benefits to be paid to existing plan participants for the rest of their lives and the lives of their beneficiaries. This projection requires actuarial assumptions as to the probability of death, disability, withdrawal, and retirement of each participant for each year. In addition, the benefits projected to be paid for each of those events in each future year reflect actuarial assumptions as to medical plan enrollment and spouse coverage. The projected benefits are then discounted to a present value, based on the assumed rate of return that is expected to be achieved on the plan’s assets. There is a reasonable range for each assumption used in the projection and the results may vary materially based on which assumptions are selected. It is important for any user of an actuarial valuation to understand this concept. Actuarial assumptions are periodically reviewed to ensure that future valuations reflect emerging plan experience. While future changes in actuarial assumptions may have a significant impact on the reported results, that does not mean that the previous assumptions were unreasonable.

The user of Segal’s actuarial valuation (or other actuarial calculations) should keep the following in mind:

- The valuation is prepared at the request of the SDCERA Board of Retirement. Segal is not responsible for the use or misuse of its report, particularly by any other party.

## **SECTION 1: Executive Summary for San Diego County Employees Retirement Association Health Insurance Allowance**

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- An actuarial valuation is a measurement of the plan's assets and liabilities at a specific date. Accordingly, except where otherwise noted, Segal did not perform an analysis of the potential range of future financial measures. The actual long-term cost of the plan will be determined by the actual benefits and expenses paid and the actual investment experience of the plan.
- If the SDCERA is aware of any event or trend that was not considered in this valuation that may materially change the results of the valuation, Segal should be advised, so that we can evaluate it.
- Segal does not provide investment, legal, accounting, or tax advice. Segal's valuation is based on our understanding of applicable guidance in these areas and of the plan's provisions, but they may be subject to alternative interpretations. The Board should look to their other advisors for expertise in these areas.

As Segal has no discretionary authority with respect to the management or assets of SDCERA, it is not a fiduciary in its capacity as actuaries and consultants with respect to SDCERA.

**SECTION 1: Executive Summary for San Diego County Employees Retirement Association Health Insurance Allowance**

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November 9, 2017

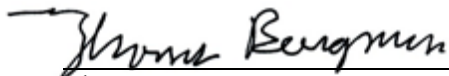
**ACTUARIAL CERTIFICATION**


This is to certify that Segal Consulting has conducted an actuarial valuation of the Health Insurance Allowance payable by San Diego County Employees Retirement Association's other postemployment benefit program as of June 30, 2017, in accordance with generally accepted actuarial principles and practices. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of GASB Statement 45 for the determination of the liability for postemployment benefits other than pensions.

The actuarial valuation is based on the plan of benefits verified by SDCERA and on participant and premium, data provided by SDCERA.

The actuarial computations made are for purposes of fulfilling funding and plan accounting requirements. Determinations for purposes other than meeting funding and financial accounting requirements may be significantly different from the results reported here. Accordingly, additional determinations may be needed for other purposes, such as judging benefit security at termination of the plan, or determining short-term cash flow requirements.

To the best of our knowledge, this report is complete and accurate and in our opinion presents the information necessary to comply with GASB Statement 45 with respect to the benefit obligations addressed. The signing actuaries are members of the Society of Actuaries, the American Academy of Actuaries, and other professional actuarial organizations and collectively meet their "General Qualification Standards for Statements of Actuarial Opinions" to render the actuarial opinion contained herein.

  
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Thomas Bergman, ASA, MAAA, EA  
Associate Actuary

  
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Dave Bergerson, ASA, MAAA, FCA, EA  
Vice President and Actuary



**SECTION 2: Valuation Results for the San Diego County Employees Retirement Association Health Insurance Allowance**

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The actuarial present value of total projected benefits uses the actuarial assumptions disclosed in Section 4 to calculate the value today of all benefits expected to be paid to current actives and retired plan members. The actuarial balance sheet shows the expected breakdown of how these benefits will be financed.

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**CHART 1**

**Actuarial Present Value of Total Projected Benefits (APB) and Actuarial Balance Sheet**

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	<b>Actuarial Present Value of Total Projected Benefits (APB)</b>	
	<b>June 30, 2017</b>	<b>June 30, 2016</b>
<b>Participant Category</b>		
Current retirees, beneficiaries, and dependents	\$147,223,320	\$152,801,858
Current active members	631,832	690,851
Terminated members entitled but not yet eligible	<u>5,637,591</u>	<u>6,088,647</u>
Total	\$153,492,743	\$159,581,356
	<b>June 30, 2017</b>	<b>June 30, 2016</b>
<b>Actuarial Balance Sheet</b>		
The actuarial balance sheet as of the valuation date is as follows:		
<b>Assets</b>		
1. Actuarial value of assets	\$10,612,786	\$7,789,709
2. Present value of future normal costs	147,115	164,249
3. Unfunded actuarial accrued liability	<u>\$142,732,842</u>	<u>151,627,398</u>
4. Present value of current and future assets	\$153,492,743	\$159,581,356
<b>Liabilities</b>		
5. Actuarial Present Value of total Projected Benefits	\$153,492,743	\$159,581,356

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**SECTION 2: Valuation Results for the San Diego County Employees Retirement Association Health Insurance Allowance**

The actuarial accrued liability shows that portion of the APB (Chart 1) allocated to periods prior to the valuation date by the actuarial cost method. The chart below shows the portion covered by accumulated plan assets, and

reconciles the unfunded actuarial accrued liability from the last valuation to this valuation.

**CHART 2**

**Actuarial Accrued Liability (AAL) and Unfunded AAL (UAAL)**

	June 30, 2017	June 30, 2016
<b>Participant Category</b>		
Current retirees, beneficiaries, and dependents	\$147,223,320	\$152,801,858
Current active members	484,717	526,602
Terminated members entitled but not yet eligible	<u>5,637,591</u>	<u>6,088,647</u>
Total actuarial accrued liability	\$153,345,628	\$159,417,107
Actuarial value of assets	<u>10,612,786</u>	<u>7,789,709</u>
Unfunded actuarial accrued liability	\$142,732,842	\$151,627,398
<b>Development of Unfunded Actuarial Accrued Liability for the Year Ended</b>		
1. Unfunded actuarial accrued liability as of June 30, 2016	\$151,627,398	
2. Employer normal cost at beginning of FY2017	38,305	
3. Total employer contributions during FY2017	20,408,644	
4. Interest on 1, 2 and 3	<u>10,255,950</u>	
5. Expected Unfunded actuarial accrued liability as of June 30, 2017 (1+2-3+4)	\$141,513,009	
6. Change due to the combined effect of plan experience*	1,219,833	
7. Unfunded actuarial accrued liability as of June 30, 2017 (5+6)	\$142,732,842	

\*Due in part to investment income less than expected.

**SECTION 2: Valuation Results for the San Diego County Employees Retirement Association Health Insurance Allowance**

The unfunded actuarial accrued liability may be amortized over periods of up to 30 years. Amortization payments may be calculated as level dollar amounts or as amounts designed to remain level as a percent of a growing payroll base. San Diego County Employees Retirement Association has elected to amortize the unfunded actuarial accrued liability using the following rule: changes in unfunded actuarial accrued liability are amortized as level dollar amounts over 20-year, declining periods.

**CHART 3**

**Table of Amortization Bases**

Type	Date Established	Initial Year	Initial Amount	Outstanding Balance	Years Remaining	Annual Payment*
Initial Liability	06/30/2007	20	\$235,755,466	\$160,748,424	10	\$21,587,096
Combined Base	06/30/2008	20	-31,391,589	-22,760,205	11	-2,865,396
Combined Base	06/30/2010	20	7,779,510	6,238,610	13	705,890
Combined Base	06/30/2012	20	-4,776,647	-4,149,364	15	-431,513
Combined Base	06/30/2014	20	-1,761,893	-1,631,436	17	-158,513
Combined Base	06/30/2016	20	3,702,626	3,614,744	19	332,235
Combined Base	06/30/2017	20	672,069	<u>672,069</u>	20	<u>60,305</u>
Total				\$142,732,842		\$19,230,104

\*Level dollar amount, assuming payment at beginning of year.

**SECTION 2: Valuation Results for the San Diego County Employees Retirement Association Health Insurance Allowance**

The Annual Required Contribution (ARC) is the amount calculated to determine the annual cost of the OPEB plan for accounting purposes *as if* the plan were being funded through contributions to a trust fund. The GASB standards cannot require the contributions actually be made to a trust fund. The ARC is simply a device used to measure annual plan costs on an accrual basis. The calculation consists of adding the Normal Cost of the plan to an amortization payment. The resulting sum is then adjusted to the start of the accounting period and adjusted as if the annual cost were to be contributed in biweekly installments.

The amortization payment is based on paying off the initial and the changes in the UAAL over 20 years, declining periods.

**CHART 4**

**Determination of Annual Required Contribution (ARC)<sup>(1)</sup>**

Cost Element	June 30, 2017		June 30, 2016	
	Amount	Percentage of Compensation	Amount	Percentage of Compensation
1. Normal cost	\$33,607	0.00%	\$38,305	0.00%
2. Amortization of the unfunded actuarial accrued liability (separate 20-year declining periods)	19,230,104	1.54%	19,169,800	1.59%
3. Adjustment for timing	<u>686,092</u>	<u>0.05%</u>	<u>684,111</u>	<u>0.06%</u>
4. Total Annual Required Contribution (ARC) <sup>(2)</sup>	<u>\$19,949,803</u>	<u>1.59%</u>	<u>\$19,896,216</u>	<u>1.65%</u>
5. Total Compensation	\$1,253,223,398		\$1,206,940,234	

<sup>(1)</sup> In future valuations, the ARC will be referred to as the Actuarially Determined Contribution (ADC).

<sup>(2)</sup> The ARC calculated in the June 30, 2016 valuation was used to determine the contribution requirement for FY2018. The ARC calculated in the June 30, 2017 valuation will be used to determine the contribution requirement for FY2019.

**SECTION 2: Valuation Results for the San Diego County Employees Retirement Association Health Insurance Allowance**

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The Annual OPEB Cost (AOC) adjusts the ARC for timing differences between the ARC and contributions in relation to the ARC. The AOC is the cost of OPEB actually booked as an expense for the Fiscal Year under GAS 45.

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**CHART 4 (continued)**  
**Determination of Annual OPEB Cost (AOC)**

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Cost Element	Calculated as of:			
	June 30, 2017 <sup>(1)</sup>		June 30, 2016 <sup>(1)</sup>	
	Amount	Percentage of Compensation	Amount	Percentage of Compensation
1. Annual Required Contribution	N/A	N/A	N/A	N/A
2. Interest on Beginning of Year Net OPEB Obligation (NOO)	N/A	N/A	N/A	N/A
3. ARC adjustment	N/A	N/A	N/A	N/A
4. Annual OPEB Cost	N/A	N/A	N/A	N/A
5. Total Compensation	N/A	N/A	N/A	N/A

<sup>(1)</sup> Note that the AOCs for fiscal years ended June 30, 2016 and June 30, 2017 were calculated as of June 30, 2014. The AOC and NOO are not applicable to GAS 75, which replaces GAS 45 for fiscal years ended after June 30, 2017.

**SECTION 2: Valuation Results for the San Diego County Employees Retirement Association Health Insurance Allowance**

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For GAS 45 (employer reporting) purposes, the schedule of employer contributions compares actual contributions to the AOC.

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**CHART 5**

**Required Supplementary Information – Schedule of Employer Contributions**

**GAS 45**

<b>Fiscal Year Ended June 30,</b>	<b>Annual Required Contributions<sup>(1)</sup></b>	<b>Actual Contributions</b>	<b>Percentage Contributed</b>
2013	\$19,024,841	\$19,024,841	\$100.00%
2014	20,208,132	20,208,132	100.00%
2015	21,110,711	21,110,711	100.00%
2016	19,719,477	19,719,477	100.00%
2017	20,408,644	20,408,644	100.00%
2018	19,949,803	Not yet made	N/A

<sup>(1)</sup> Since 2008, the AOC has been equal to the ARC calculated by SDCERA, based on percentage of actual payroll. In future valuations, the ARC will be referred to as the Actuarially Determined Contribution (ADC).

**SECTION 2: Valuation Results for the San Diego County Employees Retirement Association Health Insurance Allowance**

This schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**CHART 6**

**Required Supplementary Information – Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b) - (a)</b>	<b>Funded Ratio (a) / (b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]</b>
06/30/2008	\$18,206,162	\$217,558,935	\$199,352,773	8.37%	\$1,135,431,988	17.56%
06/30/2010	9,220,842	206,446,959	197,226,117	4.47%	1,095,581,953	18.00%
06/30/2012	5,063,910	185,301,658	180,237,748	2.73%	1,052,366,941	17.13%
06/30/2014	4,743,149	169,192,362	164,449,213	2.80%	1,122,864,480	14.65%
06/30/2016	7,789,709	159,417,107	151,627,398	4.89%	1,206,940,234	12.56%
06/30/2017	10,612,786	153,345,628	142,732,842	6.92%	1,253,223,398	11.39%

**SECTION 2: Valuation Results for the San Diego County Employees Retirement Association Health Insurance Allowance**

The Net OPEB obligation measures the accumulated differences between the annual OPEB cost and the actual contributions in relation to the ARC.

**CHART 7**

**Required Supplementary Information – Net OPEB Obligation (NOO)**

<b>Fiscal Year End</b>	<b>Annual Required Contribution (a)</b>	<b>Interest on Existing NOO (b)</b>	<b>ARC Adjustment (c)</b>	<b>Annual OPEB Cost (a) + (b) + (c) (d)</b>	<b>Actual Contribution Amount (e)</b>	<b>Net Increase in NOO (d) - (e) (f)</b>	<b>NOO as of Fiscal Year (g)</b>
June 30, 2010	\$18,789,098 <sup>(1)</sup>	\$0	\$0	\$18,789,098	\$18,789,098	\$0	\$0
June 30, 2011	18,027,576 <sup>(1)</sup>	0	0	18,027,576	18,027,576	0	0
June 30, 2012	19,198,186 <sup>(1)</sup>	0	0	19,198,186	19,198,386	0	0
June 30, 2013	19,024,841 <sup>(1)</sup>	0	0	19,024,841	19,024,841	0	0
June 30, 2014	20,208,132 <sup>(1)</sup>	0	0	20,208,132	20,208,132	0	0
June 30, 2015	21,110,711 <sup>(1)</sup>	0	0	21,110,711	21,110,711	0	0
June 30, 2016	19,719,477 <sup>(1)</sup>	0	0	19,719,477	19,719,477	0	0
June 30, 2017	20,408,644 <sup>(1)</sup>	0	0	20,408,644	20,408,644	0	0

<sup>(1)</sup> Calculated by SDCERA, based on percentage of actual payroll.

Note: The AOC and NOO are not applicable to GAS 75, which replaces GAS 45 for fiscal years ended after June 30, 2017. In future valuations, the ARC will be referred to as the Actuarially Determined Contribution (ADC).



**SECTION 3: Supplemental Valuation Details for the San Diego County Employees Retirement Association Health Insurance Allowance**

*This exhibit summarizes the participant data used for the current and prior valuations.*

**EXHIBIT A  
Summary of Participant Data**

	<b>June 30, 2017</b>	<b>June 30, 2016</b>
<b>Retirees</b>		
Number of retirees	3,839	4,017
Average age of retirees	78.1	77.6
<b>Surviving Spouses</b>		
Number	725	725
Average age	82.44	81.7
<b>Eligible for Deferred Benefit</b>		
Number	153	172
Average age	56.78	55.9
<b>Active Participants</b>		
Number	23	25
Average age	52.6	52.6
Average years of service	16.4	15.6
Average expected retirement age	61.6	61.7

**SECTION 3: Supplemental Valuation Details for the San Diego County Employees Retirement Association Health Insurance Allowance**

**EXHIBIT B**

**Participants in Active Service as of June 30, 2017 By Age and Service**

Age	Service					
	Total	0-4	5-9	10-14	15-19	20-24
Under 25	-	-	-	-	-	-
25 – 29	-	-	-	-	-	-
30 – 34	-	-	-	-	-	-
35 – 39	1	-	-	-	1	-
40 – 44	7	-	-	-	7	-
45 – 49	2	-	-	-	2	-
50 – 54	5	-	-	-	4	1
55 – 59	-	-	-	-	-	-
60 – 64	6	-	-	-	5	1
65 – 69	2	-	1	-	1	-
70 & over	-	-	-	-	-	-
<b>Total</b>	<b>23</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>20</b>	<b>2</b>

**SECTION 3: Supplemental Valuation Details for the San Diego County Employees Retirement Association Health Insurance Allowance**

**EXHIBIT C**

**Cash Flow Projections**

The ARC generally exceeds the current pay-as-you-go (“paygo”) cost of an OPEB plan. Over time the paygo cost will tend to grow and may even eventually exceed the ARC in a well funded plan. The following table projects the paygo cost as the projected net fund payment over the next ten years.

Year Ending June 30	Projected Number of Retirees*			Projected Benefit Payments		
	Current	Future	Total	Current	Future	Total
2018	4,564	71	4,635	\$17,234,269	\$225,604	\$17,459,873
2019	4,394	84	4,478	16,896,885	264,500	17,161,385
2020	4,219	93	4,312	16,417,682	299,169	16,716,851
2021	4,042	106	4,148	15,851,609	345,202	16,196,811
2022	3,861	117	3,978	15,248,953	385,580	15,634,533
2023	3,680	123	3,803	14,616,728	419,090	15,035,818
2024	3,495	128	3,623	13,961,916	453,742	14,415,658
2025	3,310	134	3,444	13,296,452	483,993	13,780,445
2026	3,128	135	3,263	12,619,176	521,065	13,140,241
2027	2,948	136	3,084	11,941,373	544,728	12,486,101

\* Includes surviving spouses of retirees.

**SECTION 3: Supplemental Valuation Details for the San Diego County Employees Retirement Association Health Insurance Allowance**

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**EXHIBIT D**

**Financial Information**

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Employers may accumulate assets to pay for future OPEB. In order to be treated as plan assets, the funds must be set aside in a trust fund or equivalent arrangement that has the following characteristics:

- a. Employer contributions are irrevocable
- b. Plan assets are dedicated to OPEB only
- c. Plan assets are legally protected from the creditors of the employer and the plan administrator.

We understand that the San Diego County Employees Retirement Association has an arrangement that meets those requirements.

**SECTION 3: Supplemental Valuation Details for the San Diego County Employees Retirement Association Health Insurance Allowance**

**EXHIBIT D**

**Financial Information (continued)**

	Year Ended June 30, 2017	Year Ended June 30, 2016
<b>Cash equivalents</b>	\$278,898,108	\$456,051,329
<b>Accounts receivable:</b>		
Contributions	\$3,906,867	\$9,296,172
Accrued interest and dividends	22,817,134	16,473,567
Settlement of securities sold	<u>887,993,561</u>	<u>494,202,783</u>
Total accounts receivable	\$914,717,562	519,972,522
<b>Investments:</b>		
Domestic equity securities and cash	\$2,492,006,859	\$2,530,809,987
International equity securities and cash	535,302,865	306,266,530
Bonds and cash	5,106,653,896	3,963,319,679
Securities lending collateral	38,382,800	54,236,367
Real Estate	948,805,541	974,996,044
Hedge Funds	13,517,725	215,998,090
Private Equity	753,116,334	642,516,909
Natural Resources	477,758,904	408,320,936
Relative Value	351,713,573	335,224,923
Other investments	<u>673,970,887</u>	<u>511,638,772</u>
Total investments at market value	<u>11,391,229,384</u>	<u>9,943,328,237</u>
<b>Total assets</b>	\$12,584,845,054	\$10,919,352,088
<b>Less accounts payable:</b>		
Securities lending & settlement of securities purchased	\$(1,153,177,764)	\$(627,445,295)
Professional service	(5,602,137)	(7,994,548)
Cash in transit	(94,293)	(98,466)
Others	<u>(18,293,318)</u>	<u>(14,756,149)</u>
Total accounts payable	\$(1,177,167,512)	\$(650,294,458)
<b>Net assets at market value, Statutory Retirement Benefits and Health Insurance Allowance</b>	<u>\$11,407,677,542</u>	<u>\$10,269,057,630</u>
<b>Net assets at market, Health Insurance Allowance only</b>	<u>\$10,612,786</u>	<u>\$7,789,709</u>

**SECTION 3: Supplemental Valuation Details for the San Diego County Employees Retirement Association Health Insurance Allowance**

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**EXHIBIT E**

**Statement of Changes in Plan Net Assets**

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	<b>Period from July 1, 2016 to June 30, 2017</b>
<b>Additions</b>	
Employer contributions for FY2017	\$20,408,644
Other income (deduction)	<u>8,858</u>
<b>Total additions:</b>	20,417,502
<b>Benefit Payments for 2017</b>	<u>17,594,425</u>
<b>Change in Net Assets</b>	<u>\$2,823,077</u>
<b>Net assets held in trust for other postemployment benefits, Health Insurance Allowance</b>	
As of July 1, 2016	\$7,789,709
As of June 30, 2017	<u>\$10,612,786</u>

**SECTION 4: Supporting Information for the San Diego County Employees Retirement Association Health Insurance Allowance**

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**EXHIBIT I**

**Summary of Required Supplementary Information**

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<b>Valuation date</b>	June 30, 2017	
<b>Actuarial cost method</b>	Entry Age	
<b>Amortization method</b>	Separate declining 20-year bases starting June 30, 2007, amortized as level dollar amount.	
<b>Remaining amortization periods</b>	Various	
<b>Asset valuation method</b>	Market Value	
<b>Actuarial assumptions:</b>		
Investment rate of return	7.25%	
Inflation rate	Not applicable	
Projected salary increases	Not applicable	
Projected increase in maximum Health Insurance Allowance	None	
<b>Plan membership:</b>	June 30, 2017	June 30, 2016
Current retirees and beneficiaries	4,564	4,742
Current active participants	23	25
Terminated participants entitled but not yet eligible	<u>153</u>	<u>172</u>
<b>Total</b>	<b>4,740</b>	<b>4,939</b>

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**SECTION 4: Supporting Information for the San Diego County Employees Retirement Association Health Insurance Allowance**

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**EXHIBIT II**

**Actuarial Assumptions and Actuarial Cost Method**

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<b>Data:</b>	Detailed census data, premium data and/or claim experience, and summary plan descriptions for OPEB were provided by SDCERA.
<b>Actuarial Cost Method:</b>	Entry Age Normal with normal cost calculated as a level percent of pay. Normal costs are calculated on an individual basis. Unfunded actuarial accrued liability is amortized as level dollar amount.
<b>Asset Valuation Method:</b>	Market Value
<b>Measurement Date:</b>	June 30, 2017
<b>Rationale for Assumptions:</b>	The information and analysis used in selecting each assumption that has a significant effect on this actuarial valuation is shown in the July 1, 2012 through June 30, 2015 Actuarial Experience Study dated June 2, 2016. Unless otherwise noted, all actuarial assumptions and methods shown below apply to members for all tiers.
<b>Discount Rate:</b>	7.25%

**Demographic Assumptions**

**Post-Retirement Mortality Rates:**

<b>Healthy Retirement:</b>	For General Members and all Beneficiaries: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with the two-dimensional scale MP2015D, set forward one year for females.  For Safety Members: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with the two-dimensional scale MP2015D, set back two years.
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**SECTION 4: Supporting Information for the San Diego County Employees Retirement Association Health Insurance Allowance**

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**Disabled Retirement:**

For General Members: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with the two-dimensional scale MP2015D, set forward five years for males and four years for females.

For Safety Members: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with the two-dimensional scale MP2015D, set forward one year.

The above mortality tables contain about a 20% margin, based on actual to expected deaths, as a provision to anticipate future mortality improvement, based on a review of mortality experience as of the measurement date.

**Pre-Retirement Mortality Rates**

For General and Safety Members: Headcount-Weighted RP-2014 Employee Mortality Table projected 20 years with the two-dimensional scale MP2015D times 75%.

**Termination Rates Before Retirement:**

**Disability Rates:**

Age	Rate (%)		Rate (%)	
	Non-Service Connected Disability		Service Connected Disability	
	General	Safety	General	Safety
20	0.00	0.00	0.00	0.03
25	0.00	0.00	0.01	0.08
30	0.01	0.00	0.03	0.18
35	0.02	0.05	0.04	0.33
40	0.05	0.08	0.06	0.52
45	0.09	0.08	0.13	0.63
50	0.11	0.08	0.17	1.22
55	0.14	0.10	0.26	1.84
60	0.17	0.12	0.31	2.30
65	0.22	0.05	0.23	2.50

**SECTION 4: Supporting Information for the San Diego County Employees Retirement Association Health Insurance Allowance**

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**Withdrawal Rates:**

Note: No active members in the valuation have less than five years of service.

Age	Rate (%)	
	Termination (5+ Years of Service) **	
	General	Safety
20	5.35	3.30
25	4.84	3.12
30	4.20	2.40
35	3.64	1.76
40	2.86	1.24
45	2.44	0.88
50	2.40	1.04
55	2.40	1.08
60	2.40	1.00
65	2.40	0.40

\*\* 20% of all terminating members will choose a refund of contributions and 80% will choose a deferred vested benefit. Termination rates are zero at ages where members are expected to retire.

**SECTION 4: Supporting Information for the San Diego County Employees Retirement Association Health Insurance Allowance**

Age	Rates (%)					
	General			Safety		
	Tier 1 and Tier A	Tier B	Tier C	Tier A	Tier B	Tier C
45	-	-	-	2.0	2.0	-
46	-	-	-	2.0	2.0	-
47	-	-	-	2.0	2.0	-
48	-	-	-	3.0	3.0	-
49	65.0	-	-	9.0	3.5	-
50	6.0	-	-	14.0	11.0	14.0
51	4.0	-	-	12.0	11.0	9.5
52	4.0	-	4.0	11.0	10.0	9.5
53	5.0	-	4.0	15.0	11.0	9.5
54	6.0	-	4.0	15.0	12.0	10.5
55	10.0	5.0	4.0	15.0	19.0	16.5
56	10.0	6.0	4.5	18.0	22.0	19.0
57	10.0	7.0	5.5	18.0	20.0	20.0
58	11.0	7.0	5.5	19.0	20.0	20.0
59	15.0	7.0	5.5	20.0	20.0	22.0
60	18.0	9.0	7.0	22.0	22.0	22.0
61	20.0	13.0	10.0	25.0	25.0	25.0
62	23.0	19.0	14.0	25.0	25.0	25.0
63	24.0	19.0	15.0	25.0	25.0	25.0
64	25.0	19.0	15.0	25.0	25.0	25.0
65	31.0	30.0	26.0	50.0	50.0	50.0
66	35.0	30.0	30.0	50.0	50.0	50.0
67	33.0	30.0	30.0	50.0	50.0	50.0
68	32.0	30.0	30.0	50.0	50.0	50.0
69	31.0	30.0	30.0	50.0	50.0	50.0
70	35.0	35.0	35.0	100.0	100.0	100.0
71	35.0	35.0	35.0	100.0	100.0	100.0
72	35.0	35.0	35.0	100.0	100.0	100.0
73	35.0	35.0	35.0	100.0	100.0	100.0
74	40.0	40.0	40.0	100.0	100.0	100.0
75 and later	100.0	100.0	100.0	100.0	100.0	100.0

**SECTION 4: Supporting Information for the San Diego County Employees Retirement Association Health Insurance Allowance**

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**Retirement Age and Benefit for Deferred Vested Members:**

General: Age 57

Safety: Age 51

**Future Benefit Accruals:**

1.0 year of service per year.

**Unknown Data for Members:**

Same as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male.

**Salary Scale:**

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Annual Rate of Compensation Increase

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Inflation: 3.00% per year, plus “Across the Board” salary increases of 0.50% per year, plus Merit and Longevity as follow:

Years of Service	General	Safety
0	6.75%	8.50%
1	5.00	6.25
2	4.50	5.00
3	3.50	4.75
4	2.50	4.50
5	1.50	2.25
6	1.40	1.60
7	1.30	1.40
8	1.20	1.20
9	1.10	1.10
10	1.00	1.00
11	0.95	1.00
12	0.90	1.00
13	0.85	1.00
14	0.80	1.00
15+	0.75	1.00

**SECTION 4: Supporting Information for the San Diego County Employees Retirement Association Health Insurance Allowance**

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**Participation and Coverage Election:** 85% of employees eligible to retire and receive subsidized postretirement welfare coverage were assumed to elect medical coverage, and enroll in the Health Insurance Allowance program. 100% of retirees reaching age 65 are assumed to be eligible for Medicare.

**Percent Married:** 75% of male members and 55% of female members are assumed to be married at retirement or pre-retirement death.

**Age of Spouse:** Male retirees are 3 years older than their spouses, and Female retirees are 2 years younger than their spouses.

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**Health Care Cost Trend Rates:** Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years. The rates shown below are “net” and are applied to the net per capita costs shown later in this section. The trend shown for a particular plan year is the rate that must be applied to that year’s cost to yield the next year’s projected cost.

<b>Rate (%)</b>		
<b>Year Ending</b>		
<b>June 30,</b>	<b>Medical*</b>	<b>Dental*</b>
2017	6.50%	4.50%
2018	6.25%	4.50%
2019	6.00%	4.50%
2020	5.75%	4.50%
2021	5.50%	4.50%
2022	5.25%	4.50%
2023	5.00%	4.50%
2024	4.75%	4.50%
2025	4.50%	4.50%

\* We note that medical and dental premiums are renewed on a calendar year basis. We have not adjusted trends from calendar year to fiscal year because for most members, the combined dental and medical premiums are at or near the maximum Health Insurance Allowance, which is not increased for medical trend.

**SECTION 4: Supporting Information for the San Diego County Employees Retirement Association Health Insurance Allowance**

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<b>Medicare Part B Premium Trend</b>	Medicare Part B premium reimbursements are assumed to remain frozen at 2007 level of \$93.50 per month.
<b>Administrative Expenses:</b>	No administrative expenses were valued explicitly. Net investment return is assumed to include administrative expenses.
<b>Plan Design:</b>	Development of plan liabilities was based on the substantive plan of benefits in effect as described in Exhibit III.
<b>Annual Maximum Benefits:</b>	No increase in the annual maximum benefit levels was assumed.
<b>Health Care Reform</b>	The liabilities do not include any excise tax that may be imposed on medical plans by the Affordable Care Act (ACA) and related acts, because the benefit is limited to a fixed dollar amount. Any increase in premium costs due to the excise tax, on high-cost health plans is assumed to be paid by the member.

**SECTION 4: Supporting Information for the San Diego County Employees Retirement Association Health Insurance Allowance**

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**Per Capita Costs and Carrier Election For Retiree Health Benefits:**

**A. Retiree Health Insurance**

<b>Under Age 65</b>		
		<b>Monthly Premium</b>
<b>Carrier</b>	<b>Assumed Election Percent <sup>(1)</sup></b>	<b>Calendar Year 2017</b>
Kaiser Permanente HMO	N/A	\$837.54
HealthNet HMO	N/A	1,389.08
UHC HMO	N/A	1,733.87

<b>Age 65 and Older</b>		
		<b>Monthly Premium</b>
<b>Carrier</b>	<b>Assumed Election Percent</b>	<b>Calendar Year 2017</b>
UHC Senior Supplement	15	\$472.64
HealthNet HMO	5	565.45
HealthNet Seniority Plus	5	285.70
Kaiser Permanente Senior Advantage	60	275.15
UHC Medicare Advantage	15	260.29

<sup>(1)</sup> Note that all under 65 premiums exceed the maximum Health Insurance Allowance of \$400 per month.

**SECTION 4: Supporting Information for the San Diego County Employees Retirement Association Health Insurance Allowance**

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**B. Monthly Dental Subsidy and Medicare Part B Premium Reimbursement**

	<b>Monthly Premium</b>	
	<b>For Single &amp; Multi Party Coverage</b>	
<b>Carrier</b>	<b>Assumed Election Percent</b>	<b>Calendar Year 2017</b>
CIGNA Dental Care HMO	20%	\$22.09
Delta Dental PPO	80%	48.20
Medicare Part B Premium Reimbursement (Frozen at 2007 level)		\$93.50

**Assumption changes:**

Retiree medical trend assumption was updated.

Retirement rates were updated for General Tier C. (Does not affect any members included in this valuation).



**SECTION 4: Supporting Information for the San Diego County Employees Retirement Association Health Insurance Allowance**

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**EXHIBIT III**

**Summary of Plan**

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This exhibit summarizes the major benefit provisions as included in the valuation. To the best of our knowledge, the summary represents the substantive plans as of the measurement date. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions.

**Health Insurance Allowance**

**Eligible Group**

General and Safety Tier I and Tier II members are in the membership classifications eligible for the Health Insurance Allowance.

**Service Eligibility**

For non-disabled retirees, 10 years of SDCERA service credit upon retirement. Reciprocal service credit and purchased service credit from work in a prior public agency do not count toward the total service credit used to determine the level of allowance. Members who receive a retirement benefit based on a disability are eligible for an allowance regardless of years of service credit.

**Allowable Benefit Uses**

The Health Insurance Allowance may be used toward retiree insurance premiums for the SDCERA-sponsored plan(s) chosen, or toward insurance premium(s) paid to providers elected outside of SDCERA-sponsored plans.

The allowance may not be used toward dependents' premiums, nor can it be used to cover any additional medical expenses incurred. It may not be used toward expenses for vision insurance, office visits or prescription co-payments.

An allowance (or any portion of an allowance) that the retiree is unable to use, is forfeited.

**Survivor Benefit**

Upon the retiree's death, the Health Insurance Allowance may be transferred to the retiree's eligible spouse or registered domestic partner.

**SECTION 4: Supporting Information for the San Diego County Employees Retirement Association Health Insurance Allowance**

**Health Insurance Allowance (continued)**

**Duration of Coverage:** Lifetime for retiree plus continuance to an eligible surviving spouse or registered domestic partner for life. The level of Health Insurance Allowance payable to the survivor is the same as that payable to the retiree.

The HIA is not a vested benefit and is not guaranteed. The allowance may be reduced or discontinued at any time.

**Benefit Amount for Non-Disabled Retirees**

Years of SDCERA Service Credit*	Monthly Allowance if Not Eligible for Medicare	Monthly Allowance If Eligible for Medicare
Less than 10	\$0	\$0
10	\$200	In addition to the allowance, \$93.50 will be reimbursed to use toward the cost of the monthly Medicare Part B premium.
11	220	
12	240	
13	260	
14	280	
15	300	
16	320	
17	340	
18	360	
19	380	
20 or more	400	

\* Members who retired on or before September 30, 1991 may be eligible for the maximum allowance.

**Benefit Amount for Disabled Retirees**

Members who were granted a disability retirement and determined to be totally disabled are eligible for the maximum allowance. Members with less than 10 years of service credit who were granted a disability retirement and determined to be partially disabled are eligible for the minimum health insurance allowance. (If the retiree has more than 10 years of service credit, use the chart above to determine the amount.)

**Plan Changes Since Prior Valuation:** None

**SECTION 4: Supporting Information for the San Diego County Employees Retirement Association Health Insurance Allowance**

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**EXHIBIT IV**

**Definitions of Terms**

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The following list defines certain technical terms for the convenience of the reader:

**Assumptions or Actuarial Assumptions:**

The estimates on which the cost of the Plan is calculated including:

- (a) Investment return — the rate of investment yield that the Plan will earn over the long-term future;
- (b) Mortality rates — the death rates of employees and pensioners; life expectancy is based on these rates;
- (c) Retirement rates — the rate or probability of retirement at a given age;
- (d) Turnover rates — the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

**Actuarial Present Value of Total Projected Benefits (APB):**

Present value of all future benefit payments for current retirees and active employees taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions.

**Normal Cost:**

The amount of contributions required to fund the benefit allocated to the current year of service.

**Actuarial Accrued Liability For Actives:**

The equivalent of the accumulated normal costs allocated to the years before the valuation date.

**SECTION 4: Supporting Information for the San Diego County Employees Retirement Association Health Insurance Allowance**

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**Actuarial Accrued Liability For Retirees:**

The single sum value of lifetime benefits to existing retirees. This sum takes account of life expectancies appropriate to the ages of the retirees and of the interest which the sum is expected to earn before it is entirely paid out in benefits.

**Actuarial Value of Assets (AVA):**

The value of assets used by the actuary in the valuation. These may be at market value or some other method used to smooth variations in market value from one valuation to the next.

**Funded Ratio:**

The ratio AVA/AAL.

**Unfunded Actuarial Accrued Liability (UAAL):**

The extent to which the actuarial accrued liability of the Plan exceeds the assets of the Plan. There is a wide range of approaches to paying off the unfunded actuarial accrued liability, from meeting the interest accrual only to amortizing it over a specific period of time.

**Amortization of the Unfunded Actuarial Accrued Liability:**

Payments made over a period of years equal in value to the Plan's unfunded actuarial accrued liability.

**Investment Return (discount rate):**

The rate of earnings of the Plan from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next. If the plan is funded on a pay-as-you-go basis, the discount rate is tied to the expected rate of return on day-to-day employer funds.

**Covered Payroll:**

Annual reported salaries for all active participants on the valuation date.

**ARC as a Percentage of Covered Payroll:**

The ratio of the annual required contribution to covered payroll.

**Health Care Cost Trend Rates:**

The annual rate of increase in net claims costs per individual benefiting from the Plan.

**SECTION 4: Supporting Information for the San Diego County Employees Retirement Association Health Insurance Allowance**

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**Annual Required Contribution (ARC):**

The ARC is equal to the sum of the normal cost and the amortization of the unfunded actuarial accrued liability.

**Annual OPEB Cost (AOC):**

Annual OPEB cost is the measure required by GASB 45 of a sole or agent employer's "cost" of participating in an OPEB plan. When an employer has no net OPEB obligation, annual OPEB cost is equal to the ARC. When a net OPEB obligation has a liability (positive) balance, annual OPEB cost is equal to (a) the ARC, plus (b) one year's interest on the beginning balance of the net OPEB obligation, less (c) an adjustment to the ARC to offset, approximately, the amount included in the ARC for amortization of the past contribution deficiencies. When a net OPEB obligation has an asset (negative) balance, the interest adjustment should be deducted from and the ARC adjustment should be added to the ARC, to determine annual OPEB cost.

**Net OPEB Obligation (NOO):**

The NOO is the cumulative difference between the annual OPEB cost and actual contributions made. If the plan is not pre-funded, the actual contribution would be equal to the annual benefit payments less retiree contributions.

**ARC Adjustment:**

The ARC adjustment is an amortization payment based on the prior year NOO. The purpose of the interest and ARC adjustments is to avoid "double-counting" annual OPEB cost and liabilities. Without the adjustments, annual OPEB cost and the net OPEB obligation (liability) would be overstated by the portion of the amortization amount previously recognized in annual OPEB cost. With the adjustments, annual OPEB cost should be approximately equal to the ARC that would have been charged if all prior ARCs had been paid in full, plus one year's interest on the net OPEB obligation.

## SECTION 4: Supporting Information for the San Diego County Employees Retirement Association Health Insurance Allowance

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### EXHIBIT V

#### Accounting Requirements

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The Governmental Accounting Standards Board (GASB) issued Statement Number 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Under this statement, all state and local government entities that provide other post employment benefits (OPEB) are required to report the cost of these benefits on their financial statements. The accounting standard supplements cash accounting, under which the expense for postemployment benefits is equal to benefit and administrative costs paid on behalf of retirees and their dependents (*i.e.*, a pay-as-you-go basis).

The statement covers postemployment benefits of health, prescription drug, dental, vision and life insurance coverage for retirees; long-term care coverage, life insurance and death benefits that are *not* offered as part of a pension plan; and long-term disability insurance for employees. The benefits valued in this report are limited to those described in Exhibit III of Section 4, which are based on those provided under the terms of the substantive plan in effect at the time of the valuation and on the pattern of sharing costs between the employer and plan members. The projection of benefits is not limited by legal or contractual limits on funding the plan unless those limits clearly translate into benefit limits on the substantive plan being valued.

The standard introduces an accrual-basis accounting requirement, thereby recognizing the employer cost of

postemployment benefits over an employee's career. The standards also introduce a consistent accounting requirement for both pension and non-pension benefits.

The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions. These assumptions are summarized in Exhibit II of Section 4. This amount is then discounted to determine the actuarial present value of the total projected benefits (APB). The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the Plan.

Once the UAAL is determined, the Annual Required Contribution (ARC) is determined as the normal cost (the APB allocated to the current year of service) and the amortization of the UAAL. This ARC is compared to actual contributions made and any difference is reported as the Net OPEB Obligation (NOO). In addition, Required Supplementary Information (RSI) must be reported, including historical information about the UAAL and the progress in funding the Plan. Exhibit IV of Section 4 contain a definition of terms.

#### **SECTION 4: Supporting Information for the San Diego County Employees Retirement Association Health Insurance Allowance**

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The calculation of an accounting obligation 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 Employer is required to implement a funding policy to satisfy the projected expense.

Actuarial calculations reflect a long-term perspective, and the methods and assumptions use techniques designed to reduce short term volatility in accrued liabilities and the actuarial value of assets, if any.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

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