



September 19, 2013

Mr. Jim Cerreta
Business Manager
Ross Valley School District
110 Shaw Drive
San Anselmo, CA 94960

Re: Ross Valley School District ("District") GASB 45 Valuation

Dear Mr. Cerreta:

This report sets forth the results of our GASB 45 actuarial valuation of the District's retiree health insurance program as of July 1, 2012.

In June, 2004 the Government Accounting Standards Board (GASB) issued its final accrual accounting standards for retiree healthcare benefits, GASB 43 and GASB 45. GASB 43/45 require public employers such as the District to perform periodic actuarial valuations to measure and disclose their retiree healthcare liabilities for the financial statements of both the employer and the trust, if any, set aside to pre-fund these liabilities. The District must obtain actuarial valuations of its retiree health insurance program under GASB 43/45 not less frequently than once every two years.

To accomplish these objectives the District selected Demsey, Filliger and Associates (DF&A) to perform an actuarial valuation of the retiree health insurance program as of July 1, 2012. This report may be compared with the valuation performed by Buck Consultants as of June 30, 2010, to see how the liabilities have changed since the last valuation. We are available to answer any questions the District may have concerning the report.

Financial Results

We have determined that the amount of actuarial liability for District-paid retiree benefits is \$1,609,434 as of July 1, 2012. This represents the present value of all benefits expected to be paid by the District for its current and future retirees. If the District were to place this amount in a fund earning interest at the rate of 4.0% per year, and all other actuarial assumptions were exactly met, the fund would have exactly enough to pay all expected benefits.

This includes benefits for 70 retirees and surviving spouses as well as 204 active employees who may become eligible to retire and receive benefits in the future. It excludes employees hired after the valuation date.

When we apportion the \$1,609,434 into past service and future service components under the Projected Unit Credit Cost Method, the past service liability (or "Accrued Liability") component is \$1,460,776 as of July 1, 2012. This represents the present value of all benefits earned to date assuming that an employee earns retiree healthcare benefits ratably over his or her career. The \$1,460,776 is comprised of liabilities of \$79,755 for active employees and \$1,381,021 for retirees. Because the District has not established an irrevocable trust for the pre-funding of retiree healthcare benefits, the Unfunded Accrued Liability (called the UAL, equal to the AL less Assets) is also \$1,460,776.

We have determined that Ross Valley School District's "Annual Required Contributions", or "ARC", for the fiscal year 2012-13, is \$90,203. The \$90,203 is comprised of the present value of benefits accruing in the current year, called the "Service Cost", and a 30-year amortization of the UAL. We estimate that the District paid approximately \$95,178 for the 2012-13 fiscal year in healthcare costs for its retirees, so the difference between the accrual accounting expense (ARC) and pay-as-you-go is a decrease of \$4,975.

There are two adjustments to the ARC that are required in order to determine the District's Annual OPEB Cost (AOC) for the 2012-13 fiscal year. We have calculated these adjustments based on a Net OPEB Obligation of \$427,110 as of June 30, 2012, resulting in an AOC for 2012-13 of \$82,587.

We show these numbers in the table on the next page and in Exhibit II. All amounts are net of expected future retiree contributions, if any.

Ross Valley School District
Annual Liabilities and Expense under
GASB 45 Accrual Accounting Standard
Projected Unit Credit Cost Method

Item	Amounts for Fiscal 2012-13
Present Value of Future Benefits (PVFB)	
Active	\$228,413
Retired	<u>1,381,021</u>
Total: PVFB	\$1,609,434
Accrued Liability (AL)	
Actives	\$79,755
Retired	<u>1,381,021</u>
Total: AL	\$1,460,776
Assets	<u>(0)</u>
Total: Unfunded AL	\$1,460,776
Annual Required Contributions (ARC)	
Service Cost At Year-End	\$5,726
30-year Amortization of Unfunded AL	<u>84,477</u>
Total: ARC	\$90,203
Adjustments to ARC	
Interest on Net OPEB Obligation*	17,084
Adjustment to ARC*	<u>(24,700)</u>
Total: Annual OPEB Cost (AOC) for 2012-13	\$82,587

*Amounts based on June 30, 2012 Net OPEB Obligation of \$427,110.

The ARC of \$90,203, shown above, should be used for the 2012-13 and 2013-14 fiscal years, but the Annual OPEB Cost for the 2013-14 fiscal year must include an adjustment based on the Net OPEB Obligation as reported in the June 30, 2013 financial statement, which has not yet been determined precisely.

When the District begins preparation of the June 30, 2013 government-wide financial statements, DF&A will provide the District and its auditors with complimentary assistance in preparation of footnotes and required supplemental information for compliance with GASB 45 (and GASB 43, if applicable).

Differences from Prior Valuation

The most recent prior valuation was completed as of June 30, 2010 by Buck Consultants. The AL (Accrued Liability) as of that date was \$1,838,000, compared to \$1,460,776 as of July 1, 2012. In this section, we provide a reconciliation between the two numbers so that it is possible to trace the AL from one actuarial report to the next.

Several factors have caused the AL to change since 2010. The AL increases as employees accrue more service and get closer to receiving benefits. There are actuarial gains/losses from one valuation to the next, and changes in actuarial assumptions and methodology for the current valuation. To summarize, the most important changes were as follows:

1. We changed the assumed rate of medical inflation to 4.0%, resulting in a decrease in the AL of \$259,419. This is the assumption that determines the projected increase in the PERS Health statutory minimum benefit for all future years.
2. We changed the discount rate from 3.5% to 4.0%. This change caused a decrease in the AL of \$79,754.
3. We assumed that 10% of future eligible retirees would waive District retiree health benefits. This change caused a decrease in the AL of \$4,702.
4. There was a net gain (a decrease in the AL) from all other sources of \$124,168.

The estimated changes to the AL from June 30, 2010 to July 1, 2012 may be summarized as follows:

Changes to AL	AL
AL as of 6/30/10	\$1,838,000
Passage of time	90,819
Change in medical CPI assumption	(259,419)
Change in discount rate	(79,754)
Assumed 10% of future retirees waive	(4,702)
Net (gain) from all other sources	<u>(124,168)</u>
AL as of 7/1/12	\$1,460,776

Funding Schedules

There are many ways to approach the pre-funding of retiree healthcare benefits. In the *Financial Results* section, we determined the annual expense for all District-paid benefits. The expense is an orderly methodology, developed by the GASB, to account for retiree healthcare benefits. However, the GASB 45 expense has no direct relation to amounts the District may set aside to pre-fund healthcare benefits.

The table on the next page provides the District with three alternative schedules for funding (as contrasted with expensing) retiree healthcare benefits. The schedules all assume that the retiree fund earns, or is otherwise credited with, 4.0% per annum on its investments, and that contributions and benefits are paid mid-year.

The schedules are:

1. A level contribution amount for the next 20 years.
2. A level percent of the Unfunded Accrued Liability.
3. A constant percentage (3%) increase for the next 18 years (a longer period would result in the fund's exhaustion in the early years).

We provide these funding schedules to give the District a sense of the various alternatives available to it to pre-fund its retiree healthcare obligation. The three funding schedules are simply three different examples of how the District may choose to spread its costs.

By comparing the schedules, you can see the effect that early pre-funding has on the total amount the District will eventually have to pay. Because of investment earnings on fund assets, the earlier contributions are made, the less the District will have to pay in the long run. Of course, the advantages of pre-funding will have to be weighed against other uses of the money.

The table on the following page shows the required annual outlay under the pay-as-you-go method and each of the above schedules. **The three funding schedules include the "pay-as-you-go" costs; therefore, the amount of pre-funding is the excess over the "pay-as-you-go" amount.**

These numbers are computed on a closed group basis, assuming no new entrants, and using unadjusted premiums.

Ross Valley School District

Sample Funding Schedules (Closed Group)

Fiscal Year	Pay-as-you-go	Level Contribution for 20 years	Level % of Unfunded Liability	Constant Percentage Increase
2012	\$95,178	\$116,125	\$292,155	\$98,864
2013	95,069	116,125	248,404	101,830
2014	95,344	116,125	211,629	104,885
2015	95,375	116,125	180,691	108,031
2016	95,164	116,125	154,626	111,272
2017	94,742	116,125	132,630	114,611
2018	94,019	116,125	114,032	118,049
2019	93,040	116,125	98,272	121,590
2020	91,770	116,125	84,883	125,238
2021	91,085	116,125	73,478	128,995
2022	90,145	116,125	63,736	132,865
2023	87,992	116,125	55,385	136,851
2024	85,522	116,125	48,198	140,956
2025	82,742	116,125	40,859	145,185
2026	79,663	116,125	34,162	149,541
2027	76,324	116,125	28,562	154,027
2028	72,879	116,125	23,881	158,648
2029	70,557	116,125	19,967	163,407
2030	68,287	116,125	16,696	0
2031	64,813	116,125	13,960	0
2032	61,544	0	11,673	0
2033	58,432	0	9,761	0
2034	55,498	0	8,163	0
2035	52,408	0	6,826	0
2036	48,727	0	5,709	0
2037	45,096	0	4,774	0
2038	41,895	0	3,993	0
2039	39,879	0	3,340	0
2040	38,203	0	2,794	0
2041	36,126	0	2,337	0
2042	34,639	0	1,955	0
2043	33,735	0	1,636	0
2044	33,309	0	1,369	0
2045	33,401	0	1,146	0
2046	33,708	0	959	0
2047	34,516	0	803	0
2048	35,892	0	673	0
2049	37,180	0	564	0
2050	37,875	0	473	0
2055	44,082	0	199	0
2060	39,608	0	87	0
2065	31,903	0	41	0
2070	22,041	0	20	0

Actuarial Assumptions

In order to perform the valuation, the actuary must make certain assumptions regarding such items as rates of employee turnover, retirement, and mortality, as well as economic assumptions regarding healthcare inflation and interest rates. Our assumptions are based on a standard set of assumptions we have used for similar valuations, modified as appropriate for the District. For example, turnover rates were taken from a standard actuarial table, T-5, increased by 100% at all ages. This table was chosen because it matches District turnover experience.

Retirement rates were also based on recent District experience, but are less reliable due to the relatively small size of the retiree group. 10% of eligible future retirees (i.e., those with 40 years of service) were assumed to waive statutory minimum coverage under the District's health plans upon retirement.

The discount rate of 4.0% is based on our best estimate of expected long-term plan experience and is in accordance with our understanding of the guidelines for selection of these rates under GASB 45. The healthcare trend rates are based on our knowledge of the general healthcare environment and the specific coverages offered by the District. Please see the "Actuarial Assumptions" section of the report for further details.

Projected Annual Pay-as-you go Costs

As part of the valuation, we prepared a projection of the expected annual cost to the District to pay benefits on behalf of its retirees on a pay-as-you-go basis. These numbers are computed on a closed group basis, assuming no new entrants, and are net of retiree contributions. Projected pay-as-you-go costs for selected years are as follows:

FYB	Pay-as-you-go
2012	\$95,178
2013	95,069
2014	95,344
2015	95,375
2016	95,164
2017	94,742
2018	94,019
2019	93,040
2020	91,770
2025	82,742
2030	68,287
2035	52,408
2040	38,203
2045	33,401
2050	37,875
2055	44,082
2060	39,608
2065	31,903
2070	22,041

Breakdown by Employee/Retiree Group

Exhibit I, attached at the end of the report, shows a breakdown of the GASB 45 components (ARC, AL, Service Cost, and PVFB) by division and separately by active employees (future retirees) and current retirees.

Net OPEB Obligation (NOO) and Annual OPEB Cost (AOC)

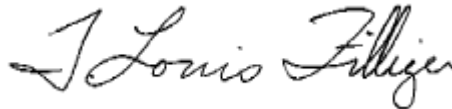
Exhibit II shows a development of the District's Net OPEB Obligation ("NOO") as of June 30, 2010 through June 30, 2012, and the Annual OPEB Cost ("AOC") for the fiscal years 2010-11 through 2012-13.

Certification

The actuarial certification, including a caveat regarding limitations of scope, if any, is contained in the "Actuarial Certification" section at the end of the report.

We have enjoyed working with the District on this report, and are available to answer any questions you may have concerning any information contained herein.

Sincerely,
DEMSEY, FILLIGER AND ASSOCIATES



T. Louis Filliger, FSA, EA, MAAA
Partner & Actuary

Benefit Plan Provisions

Active Employee Coverage

The District sponsors healthcare coverage under the California Public Employees Medical and Hospital Care Act ("PEMHCA"), commonly referred to as PERS Health. PEMHCA provides health insurance through a variety of Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) options. Participation in PEMHCA is financed in part by the District through a statutory minimum contribution to PEMHCA. The statutory minimum was \$112.00 per month for calendar 2012, \$115.00 per month for 2013, and is scheduled by law to be indexed with medical inflation (CPI) for years 2014 and thereafter.

Post-Retirement Coverage

The District also offers medical coverage to its retirees. The District makes the required statutory PEMHCA contribution as described above, subject to the "Equal Contribution Method" under which the District's contribution for retirees is equal to its basic contribution for active employees.

Pursuant to Board resolutions authorized by California Government Code Section 22895, a retiree who retires on or after July 1, 2010 must have 40 years of credited service with the District in order to receive a lifetime District contribution equal to the statutory minimum described above. Retirees who retire on or after July 1, 2010 without having completed at least 40 years of credited service with the District are not eligible to receive a District contribution towards retiree health benefits. These rules apply to all employees of the District, including Certificated, Classified, and Management groups.

The District also pays a 0.36%-of-premium administrative fee to PEMHCA for each eligible retiree.

Valuation Data

Active and Retiree Census

Age distribution of retirees and surviving spouses included in the valuation

Age	Statutory Minimum
Under 55	1
55-59	1
60-64	7
65-69	16
70-74	16
75-79	16
80-84	8
85-89	3
90+	<u>2</u>
Total	70
Average Age	72.81

Age/Years of service distribution of active employees included in the valuation

Years→	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
<u>Age</u>									
<25	5								5
25-29	14	4							18
30-34	13	16	0						29
35-39	16	2	5	0					23
40-44	13	10	6	0	0				29
45-49	6	11	3	0	3	0			23
50-54	5	8	8	2	2	0	0		25
55-59	4	6	5	4	4	0	0	0	23
60-64	1	4	6	1	4	4	1	0	21
65+	<u>2</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>8</u>
All Ages	79	63	34	8	13	5	1	1	204

Average Age: 44.90
Average Service: 7.53

Actuarial Assumptions

The liabilities set forth in this report are based on the actuarial assumptions described in this section.

Valuation Date: July 1, 2012
 Actuarial Cost Method: Projected Unit Credit
 Amortization Method: 30-year level dollar, open period
 Discount Rate: 4.0% per annum
 Return on Assets: 4.0% per annum
 Pre-retirement Turnover: According to Crocker-Sarason Table T-5 less mortality, increased by 100% at all ages. Sample rates are as follows:

Age	Turnover (%)
25	15.9%
30	15.4
35	12.6
40	10.3
45	8.0
50	5.1
55	1.9

Pre-retirement Mortality: RP-2000 Combined Mortality, static projection to 2012 by scale AA. Sample deaths per 1,000 employees are as follows:

Age	Males	Females
25	0.33	0.18
30	0.42	0.23
35	0.73	0.42
40	0.98	0.59
45	1.29	0.93
50	1.72	1.36
55	2.88	2.47
60	5.56	4.76

Post-retirement Mortality: RP-2000 Combined Mortality, static projection to 2012 by scale AA. Sample deaths per 1,000 retirees are as follows:

Age	Males	Females
60	5.56	4.76
65	10.75	9.14
70	18.52	15.77
75	31.95	25.52
80	57.06	42.17
85	101.80	72.05
90	174.80	127.02

Actuarial Assumptions (Continued)
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Claim Cost per Retiree or Spouse (before being limited to statutory minimum benefit):

Age	Medical/Rx
50-64	\$8,166
65+	3,529

Retirement Rates:

Age	Percent Retiring*
60	8.0%
61	10.0
62	12.0
63	15.0
64	18.0
65	20.0
66	25.0
67	28.0
68	32.0
69	35.0
70	100.0

*Of those having met the eligibility to receive PERS retirement benefits. The percentage refers to the probability that an active employee reaching the stated age will retire within the following year. The rates begin at age 60 because we assumed an earliest hire age of 20, and a person hired at age 20 would complete the required 40 years of service at age 60.

Trend Rate:

Healthcare costs were assumed to increase according to the following schedule:

FYB	Medical/Rx	Medical CPI
2013	8.0%	4.0%
2014	7.0	4.0
2015	6.0	4.0
2016+	5.0	4.0

Percent Waiving Coverage:

10%. This assumption applies to future retirees only.

Percent of Retirees with Spouses:

Future Retirees: 50% of future retirees were assumed to have spouses. Female spouses assumed three years younger than male spouses.

Current Retirees: Based on actual spousal data.

Actuarial Certification

The results set forth in this report are based on our actuarial valuation of the health and welfare benefit plans of the Ross Valley School District ("District") as of July 1, 2012.

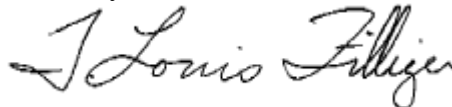
The valuation was performed in accordance with generally accepted actuarial principles and practices. We relied on census data for active employees and retirees provided to us by the District in July, 2013. We also made use of claims, premium, expense, and enrollment data, and copies of relevant sections of healthcare documents provided to us by the District.

The assumptions used in performing the valuation, as summarized in this report, and the results based thereupon, represent our best estimate of the actuarial costs of the program under GASB 43 and GASB 45, and the existing and proposed Actuarial Standards of Practice for measuring post-retirement healthcare benefits. We have assumed no post-valuation mortality improvements, consistent with our belief that there will be no further significant, sustained increases in life expectancy in the United States over the projection period covered by the valuation.

Throughout the report, we have used unrounded numbers, because rounding and the reconciliation of the rounded results would add an additional, and in our opinion unnecessary, layer of complexity to the valuation process. By our publishing of unrounded results, no implication is made as to the degree of precision inherent in those results. Clients and their auditors should use their own judgment as to the desirability of rounding when transferring the results of this valuation report to the clients' financial statements.

The undersigned actuary meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.

Certified by:



T. Louis Filliger, FSA, EA, MAAA Date: 9/19/13
Partner & Actuary

Ross Valley School District
GASB 45 Valuation Results By Employee Group

	7/1/2012	7/1/2012	7/1/2012	7/1/2012
	Valuation Results	Valuation Results	Valuation Results	Valuation Results
	<u>Certificated</u>	<u>Classified</u>	<u>Management</u>	<u>Total All Groups</u>
District-paid Present Value of Benefits:				
Actives	\$ 147,692	\$ 64,239	\$ 16,482	\$ 228,413
Retirees	<u>915,237</u>	<u>410,744</u>	<u>55,040</u>	<u>1,381,021</u>
Total District-Paid PVFB:	\$ 1,062,929	\$ 474,983	\$ 71,522	\$ 1,609,434
District-paid Accrued Liability:				
Actives	\$ 37,400	\$ 34,315	\$ 8,040	\$ 79,755
Retirees	<u>915,237</u>	<u>410,744</u>	<u>55,040</u>	<u>1,381,021</u>
Total District-Paid AL:	\$ 952,637	\$ 445,059	\$ 63,080	\$ 1,460,776
Assets*	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District-paid Unfunded Accrued Liability ("UAL")	\$ 952,637	\$ 445,059	\$ 63,080	\$ 1,460,776
<u>GASB 45 ARC ("Annual Required Contributions")</u>				
Service Cost at Year-end	\$ 3,659	\$ 1,649	\$ 418	\$ 5,726
30-year amortization of District-paid UAL	<u>55,091</u>	<u>25,738</u>	<u>3,648</u>	<u>84,477</u>
Total ARC (District's Annual Expense)	\$ 58,750	\$ 27,387	\$ 4,066	\$ 90,203

*Assets, if any, allocated in proportion to AL for illustration purposes only; GASB 45 does not provide authority for this calculation.

**Ross Valley School District
Development of Annual OPEB Costs**

Exhibit II

	Amount
Net OPEB Obligation 6/30/2010	456,540
ARC for 2010-11	99,000
Interest on Net OPEB Obligation	15,979
Amortization adjustment to ARC	<u>(39,579)</u>
Annual OPEB Cost 2010-11	75,400
Employer Contribution	<u>(89,875)</u>
Change in Net OPEB Obligation 2010-11	(14,475)
Net OPEB Obligation 6/30/2010	<u>456,540</u>
Net OPEB Obligation 6/30/2011	442,065
ARC for 2011-12	101,000
Interest on Net OPEB Obligation	15,000
Amortization adjustment to ARC	<u>(38,400)</u>
Annual OPEB Cost 2011-12	77,600
Employer Contribution	<u>(92,555)</u>
Change in Net OPEB Obligation 2011-12	(14,955)
Net OPEB Obligation 6/30/2011	<u>442,065</u>
Net OPEB Obligation 6/30/2012	427,110
ARC for 2012-13	90,203
Interest on Net OPEB Obligation	17,084
Amortization adjustment to ARC	<u>(24,700)</u>
Annual OPEB Cost 2012-13	82,587