Gabriel Roeder Smith & Company
Consultants & Actuaries

STATE OF CALIFORNIA RETIREE HEALTH BENEFITS PROGRAM

2015 EXPERIENCE REVIEW

FOR THE YEARS JULY 1, 2007, TO JUNE 30, 2014

GRS
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July 3, 2015

The Honorable Betty Yee
California State Controller
300 Capitol Mall, Suite 1850
Sacramento, CA 95812

Re: State of California Retiree Health Benefits Program Experience Study

Dear Controller Yee:

In accordance with the request of the California State Controller's Office (SCO), Gabriel, Roeder, Smith & Company (GRS) has performed a review of the healthcare related actuarial assumptions used to value the liabilities associated with the retiree healthcare benefits provided to statewide employees through the programs sponsored by the State of California as administered by the California Public Employees Retirement System (CalPERS) and the California Department of Human Resource (CalHR). The primary purpose of the study is to determine the continued appropriateness of the current healthcare related actuarial assumptions by comparing actual experience to expected experience. Our study was based on healthcare census information and actuarial valuations for the period from July 1, 2007, to June 30, 2014. The updated actuarial assumptions determined by this study will be used for the GASB Nos. 43 and 45 valuation effective with the July 1, 2015, valuation.

Our study includes a review of the experience associated with the following actuarial assumptions and methods:

- GASB Nos. 43 and 45 discount rate
- Health cost and premium increases
- Impact of the excise tax
- Participation percentage
- Percent of disabilities treated as post-Medicare
- Coverage and continuance assumptions
- Aging factors
- Aged per capita claim cost based on updated aging factors – medical and prescription
- Adjustments for disabled members
- Adjustments for children of current retirees and survivors
- Per capita claim cost – dental
- Medicare Part B premiums
- Employer Group Waiver Plan
- Actuarial cost method, amortization method, and asset valuation method
- Data processing assumptions

Section I contains a summary of the actuarial assumption review. The results of this analysis are set forth in Section II of this report. Section III contains the cost impact as a result of the assumption modifications.

The results of the experience study and recommended healthcare related assumptions set forth in this report are based on the data and actuarial techniques and methods described above. This healthcare related assumption review is based on data provided by the SCO, CalPERS and CalHR for the annual actuarial valuations. We checked for internal and year-to-year consistency, but did not otherwise audit the data. We are not responsible for the accuracy or completeness of the information provided. All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. Based on these items, we certify these results to be true and correct.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

This report should not be relied on for any purpose other than the purpose stated.

The signing actuaries are independent of the plan sponsor.

Alex Rivera and Paul Wood are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Respectfully submitted,

Gabriel, Roeder, Smith & Company

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SECTION I

EXPERIENCE REVIEW SUMMARY

STATE OF CALIFORNIA RETIREE HEALTH BENEFITS PROGRAM
EXPERIENCE REVIEW SUMMARY

Background

Actuarial assumptions are selected that are intended to provide reasonable estimates of future expected experience, such as morbidity rates, participation assumptions, coverage and continuance assumptions, among others. These assumptions, along with an actuarial cost method, the employee census data, and the plan's provisions are used to determine the actuarial liabilities and overall actuarially determined funding requirements for the plan. The actual cost of the plan over time will be the actual benefit payments and expenses required by the plan's provisions for the beneficiaries under the plan less investment return. To the extent the actual experience deviates from the assumptions, experience gains and losses will occur. These gains (losses) then serve to reduce (increase) future actuarially determined deficits and increase (reduce) the funded ratio. The actuarial assumptions should be individually reasonable and consistent in the aggregate, and should be reviewed periodically to ensure that they remain appropriate. The actuarial cost method, for plan sponsors that use actuarially based funding policies, automatically adjusts contributions over time for differences between what is assumed and the true experience under the plan.

The Actuarial Standards Board (ASB) provides guidance on measuring the costs of financing a retirement program through the following Actuarial Standards of Practices (ASOP):

- ASOP No. 6, Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions;
- ASOP No. 27, Selection of Economic Assumptions for Measuring Pension Obligations; and
- ASOP No. 35, Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations.

The recommendations provided in this report are consistent with the preceding actuarial standards of practice.

Assumptions and Methods Reviewed

We reviewed the following healthcare related assumptions and methods:

- GASB Nos. 43 and 45 discount rate;
- Health cost and premium increases;
- Impact of the excise tax;
- Participation percentage;
- Percent of disabilities treated as post-Medicare;
- Coverage and continuance assumptions;
- Aging factors;
- Aged per capita claim cost based on updated aging factors – medical and prescription;
- Adjustments for disabled members;
- Adjustments for children of current retirees and survivors;
- Per capita claim cost – dental;
- Medicare Part B premiums;

- Employer Group Waiver Plan;
- Actuarial cost method, amortization method, and asset valuation method; and
- Data processing assumptions.

The assumptions are generally based on the plan's own experience, taking into account emerging trends.

The accuracy and extent of the data is an important consideration in assessing demographic experience. The accuracy of the data for this study was sufficient.

Key Findings and Recommendations

GRS has performed a review of the healthcare related actuarial assumptions used to value the liabilities associated with the retiree healthcare benefits provided to statewide employees through the programs sponsored by the State of California as administered by CalPERS and CalHR. The primary purpose of the study is to determine the continued appropriateness of the current healthcare related actuarial assumptions by comparing actual experience to expected experience. Our study was based on healthcare census information and actuarial valuations for the period from July 1, 2007, to June 30, 2014. The updated actuarial assumptions determined by this study will be used for the GASB Nos. 43 and 45 valuation effective with the July 1, 2015, valuation.

Following is a summary of our key findings and recommendations:

- **GASB Nos. 43 and 45 discount rate –** We recommend maintaining the current discount rate of 4.25 percent under the pay-as-you-go funding policy. We recommend that the partial and full funding policy discount rates be reviewed each year in relation to the rate expected to be earned under Strategy 1 as disclosed in the CalPERS OPEB assumption model.
- **Health cost and premium increases –** We continue to recommend the use of a select and ultimate trend assumption and the use of the most recent premium information available at the time of the valuation.
- **Impact of the excise tax –** We recommend increasing the ultimate trend rate for future retirees by an additional 0.14 of a percentage point to 4.64 percent on and after 2023.
- **Participation percentage –** We recommend updating these assumptions based on the experience of the plan.
- **Percent of disabilities treated as post-Medicare –** We recommend updating this assumption based on the experience of the plan.
- **Coverage and continuance assumptions –** We recommend maintaining the current assumption.
- **Aging factors –** We recommend updating these factors based on more recent gross claims data.
- **Aged per capita claim cost based on updated aging factors – medical and prescription –** We recommend updating the per capita claims costs based on the recommended aging factors.
- **Adjustments for disabled members –** We recommend slightly lowering the load applied to the expected claims for disabled members.
- **Adjustments for children of current retirees and survivors –** We recommend updating the load applied to the expected claims to account for children of current retirees and survivors.
- **Per capita claim cost – dental –** We recommend maintaining the current assumption.
- **Medicare Part B premiums –** We recommend maintaining the current assumption.

- **Employer Group Waiver Plan –** We recommend maintaining the current assumption and reviewing the load at each future valuation date.
- **Actuarial cost method, amortization method, and asset valuation method –** We recommend maintaining the current cost method, amortization method, and asset valuation method.
- **Data processing assumptions –** We recommend reviewing the data each year to determine whether or not certain assumptions need to be made and whether or not those assumptions will have a material impact on the valuation.

If approved by the SCO, the proposed assumptions will first be used in the actuarial valuation as of June 30, 2015. Below we have presented the impact of changing the assumptions on the June 30, 2014. This is presented for informational purposes only.

Pay-As-You-Go Funding (4.250% Discount Rate)			
Fiscal Year Ending June 30, 2015 ($ in billions)	**Baseline**	**Impact**	**Change - Dollar**
Actuarial Accrued Liability as of June 30, 2014	$71.81	$69.99	-$1.82
Annual Required Contribution for FY 2015[a]	$5.08	$5.08	$0.00
Annual OPEB Cost for FY 2015	$5.14	$5.14	$0.00
Expected Employer Contribution for FY 2015	$1.87	$1.82	-$0.05
Expected Net OPEB Obligation at FYE 2015	$22.63	$22.68	$0.05
Annual Required Contribution for FY 2016[b]	$5.62	$5.47	-$0.15

[a] *Based on actuarial valuation as of June 30, 2013, increased by wage inflation of 3.00 percent.*

[b] *Based on actuarial valuation as of June 30, 2014, increased by wage inflation of 3.00 percent.*

The key assumption changes which decreased costs include:

- Change in aging factors
- Change in percentage of disabled members that are eligible for Medicare coverage
- Decrease in claim cost load applied to family contracts to account for children's claim costs

These changes will be discussed in more detail later in this report.

GASB Statement Nos. 74 and 75

Currently, the applicable accounting standards for OPEB plans are found in GASB Statement Nos. 43 and 45. On June 2, 2015, the GASB released two new accounting standards applicable to OPEB. GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans that administer benefits on behalf of governments. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.

Statement 75

Statement 75 replaces the GASB Statement No. 45. The new Statement requires governments to report a liability on the face of the financial statements for the OPEB that they provide:

Statement 75 requires governments to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. Also, the Statement changes the way in which the discount rate for a Plan that is being pre-funded is calculated. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

Statement 74

Statement 74 replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria.

The Statement requires a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement also requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments.

Effective Dates

The provisions in Statement 74 are first effective for the fiscal year beginning July 1, 2016. The provisions in Statement 75 are first effective for the fiscal year beginning July 1, 2017.

Potential Impact of New Accounting

As a result of the new accounting standards, the annual expense and OPEB liability amounts will become much more volatile. The discount rate for plans funded on a pay-as-you-go basis will now be tied to a municipal bond index resulting in a rate that will fluctuate from year to year. These new standards are required for accounting purposes and may result in different results if the State begins to pre-fund the benefits.

SECTION II

EXPERIENCE ANALYSIS RESULTS

GASB Nos. 43 and 45 Discount Rate

The primary assumption influencing Annual OPEB Costs and the Actuarial Accrued Liability is the assumed rate of return or discount rate on assets supporting the retiree healthcare liability. The GASB and the ASB have both issued guidelines for the determination and use of discount rates. These requirements have been set forth in GASB Statement Nos. 43 and 45 and Actuarial Standard of Practice Nos. 6 and 27. They require that the discount rate "reflect a long-term prospective" and "reduce short-term volatility" as well as reflect "the expected long-term rate of return on assets expected to be available to pay or provide OPEBs when due."

Based on these guidelines, the selection of a discount rate generally depends on:

- The assets backing liabilities;
- The plan sponsor's funding policy;
- The liquidity needs of the program;
- The investment policy, including the plan sponsor's risk tolerance;
- Historical information on asset classes;
- Capital market assumptions and forward looking modeling of the classes and target portfolio; and
- Consistency among economic assumptions based on the "building block" approach.

The State of California currently finances retiree healthcare benefits on a pay-as-you-go basis from assets in the general fund, which are invested in short-term fixed income instruments through the Pooled Money Investment Account (PMIA). According to GASB Statement No. 45, the discount rate must be consistent with the long-range expected return on such short-term fixed income instruments. Over the last twenty-five years, the PMIA average annual return was approximately 4.00 percent on a nominal basis, inflation was approximately 2.50 percent, and the real return was approximately 1.50 percent. Based on PMIA's historical returns, investment policy, expected future returns and an underlying inflation assumption of 2.75 percent, a discount rate of 4.25 percent was selected for the pay-as-you-go funding policy.

If a sound pre-funding policy is established and contributions are made to a qualifying trust with an appropriate investment policy, then:

- A higher discount rate, consistent with the funding and investment policies, can be used and actuarial accrued liabilities would be lower;
- Assets would accumulate;
- The unfunded liability could be significantly lower when compared to the pay-as-you-go policy;
- Annual OPEB costs would be lower; and
- The growth in balance sheet liability could be controlled.

Each year in the valuation report, results assuming two alternative funding policies are presented. Under the first alternative, the State is assumed to fully fund the Annual Required Contribution (ARC), supporting a discount rate of 7.28 percent. Under the second alternative, the State is assumed to pre-fund 50 percent of the excess of the fully-funded ARC over the pay-as-you-go costs, supporting a discount rate of 5.765 percent. The full funding discount rate of 7.28 percent is consistent with the rate expected to be earned under Strategy 1 as disclosed in the CalPERS OPEB assumption model for reports based on data measured after August 15, 2012.

Health Cost and Premium Increases Including the Adjustment for the Excise Tax

Healthcare cost and premium increases are used to model the rate of increase, over time, of the underlying healthcare benefit payments and is often referred to as the healthcare trend rate.

According to Actuarial Standard of Practice No. 6 (ASOP No. 6) section 3.12.1(a):

> *Health care cost trend rates reflect the change in per capita health costs over time due to factors such as inflation, medical inflation, utilization, technology improvements, definition of covered charges, leveraging caused by health plan design features not explicitly modeled, and health plan participation. The actuary should not reflect aging of the covered population when selecting the trend assumption for projecting future costs (see section 3.7.7 for a discussion of "age-specific costs"). The actuary should consider separate trend rates for major cost components such as hospital, prescription drugs, other medical services, Medicare integration, and administrative expenses. Even if the actuary develops one aggregate set of trend rates, the actuary should consider these cost components when developing the aggregate set of trend rates.*
>
> *When developing an initial trend assumption, the actuary should consider known or expected changes in per capita health costs in the year(s) following the measurement date. The actuary should consider the sustainability of current trends over an extended period, and the possible need for a long-term trend assumption that is different from the initial trend assumption. If these two trend assumptions are different, the actuary should choose an appropriate select period and transition pattern between the initial trend assumption and the long-term trend assumption.*
>
> *When developing a long-term trend assumption and the select period for transitioning, the actuary should consider relevant long-term economic factors such as projected growth in per capita gross domestic product (GDP), projected long-term wage inflation, and projected health care expenditures as a percentage of GDP. The actuary should select a transition pattern and select period that reasonably reflects anticipated experience.*

The healthcare trend rates for medical and prescription costs are currently based on a select and ultimate approach meaning higher rates of increase are assumed in the initial years until an ultimate increase rate is reached in the later years. The medical and prescription trend rates are further adjusted for the impact of certain provisions under Federal Healthcare Reform.

The table on the following page shows the current healthcare trend rate assumptions as of the most recent valuation.

	Trend Assumption - Per Capita Costs						
	PPO Plans				HMO Plans		
	Pre-Medicare		Post-Medicare		Pre-Medicare	Post-Medicare	
Year	Medical	Rx	Medical	Rx	Medical/Rx	Medical/Rx	Dental
2015	7.00%	7.00%	7.00%	7.00%	3.88%*	5.92%*	0.00%*
2016	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	4.50%
2017	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	4.50%
2018	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	4.50%
2019	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	4.50%
2020	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	4.50%
2021	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
2022	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
2023	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
2024	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
2025 and Beyond	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%

	Trend Assumption - Premiums and Statutory Cap						
	PPO Plans		HMO Plans				
	Pre-Medicare	Post-Medicare	Pre-Medicare	Post-Medicare			Statutory
Year	Medical/Rx	Medical/Rx	Medical/Rx	Medical/Rx	Dental	Part B	Cap
2015	0.56%*	11.52%*	3.88%*	5.92%*	0.00%*	4.50%	5.31%*
2016	8.00%	8.00%	8.00%	8.00%	4.50%	4.50%	8.00%
2017	7.50%	7.50%	7.50%	7.50%	4.50%	4.50%	7.50%
2018	7.00%	7.00%	7.00%	7.00%	4.50%	4.50%	7.00%
2019	6.50%	6.50%	6.50%	6.50%	4.50%	4.50%	6.50%
2020	5.50%	5.50%	5.50%	5.50%	4.50%	4.50%	5.50%
2021	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
2022	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
2023	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
2024	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
2025 and Beyond	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%**

**Based on actual increases*

***For Future Retirees, the ultimate trend rate on the Employer's explicit contribution includes an additional 0.14 percent to account for the Excise Tax under Federal Healthcare Reform.*

All increases are assumed to occur 1/1 of each year beginning 1/1/2015.

The trend rates shown are net of any increases due to the potential dissipation of the EGWP-Wrap design changes in 2021. Effective trend for the Post-Medicare plans affected by the EGWP-Wrap design changes would be higher until the year 2021. These higher effective trend rates gradually eliminate the approximately 35 percent savings for PERSCare, 32 percent savings for PERS Choice and six percent savings for the HMO plans remaining as of June 30, 2014, due to the EGWP-Wrap plan design.

Each year as part of the valuation process, the trend rates are reviewed and updated based on a review of supporting documentation provided by CalPERS and a review of various publically available trend studies. We continue to recommend the use of a select and ultimate trend assumption and the use of the most recent premium information available at the time of the valuation. Trend rates for the upcoming June 30, 2015, valuation will be reviewed and recommended after this report has been issued when more information from CalPERS is available.

As part of this study, we reviewed the impact of the excise tax on the ultimate trend rates attributable to the State's explicit contribution. Currently, the ultimate trend rate for future retirees was increased by an additional 0.14 of a percentage point to 4.64 percent on and after 2025.

Beginning in 2018, the Patient Protection and Affordable Care Act (PPACA) imposes a 40 percent excise tax on healthcare plan costs over certain statutory limits. The annual statutory limits for 2018 depend on the age and coverage tier as follows:

	Age less than 55 or greater than 64	Age greater than 54 or less than 65
Single person coverage	$10,200	$11,850
All other coverage types	$27,500	$30,950

In 2019 and 2020, the statutory limits are increased by the rate for the Consumer Price Index for all Urban Consumers (CPI-U) plus one percentage point, and after 2020 the statutory limits are increased by the CPI-U rate. The statutory limits don't recognize differences due to region, health status of the group or plan design. Healthcare plan costs may be blended among active members, pre-Medicare retirees and Medicare retirees if members are covered by the same plan, and similar benefits are provided. Healthcare plan costs subject to the excise tax include: medical, prescription and employer Health Savings Accounts and Health Reimbursement Accounts.

The impact of the excise tax was estimated by:

1) Aggregating average costs by the PPO plans and the HMO plans;
2) Projecting average plan costs based on the assumed trend rate used in the June 30, 2014,valuation;
3) Updated 2016 premium information;
4) Projecting the statutory limits assuming a CPI-U rate of 2.75 percent;
5) Estimating the projected excise tax based on the projected average costs and statutory limits;
6) Assuming the plan sponsor would subsidize the excise tax and no additional costs would be passed to plan members; and
7) Developing an adjusted trend rate, applied to the explicit costs, to approximate the impact of the additional excise tax costs.

Based on the updated analysis, the ultimate trend rate for future retirees was increased by an additional 0.14 of a percentage point to 4.64 percent on and after 2023.

Participation Percentage

We have reviewed the participation assumption, or the likelihood that an active member will retire and select healthcare coverage. This assumption generally depends on the subsidy provided by the employer. That is, the higher the level of employer benefits, and the lower the level of retiree-paid premium, the higher the likelihood the retired member will select healthcare coverage.

The following table shows the current participation assumption:

Employer Contribution Percentage of Premium	Participation Rate
25% or less	50%
25% to 50%	60%
50% to 75%	80%
75% to 90%	90%
90% to 100%	100%

Currently, if the member is enrolled in PERSCare, it is assumed that the participation rate would be 90 percent regardless of the percent of premium that the employer contribution covers. Furthermore, if the PERSCare member is disabled, we assumed 95 percent participation. Also, in addition to the percent of premium participation rate, 50 percent of active members that waive coverage are assumed to elect HMO coverage as a retiree.

In order to develop the participation assumption, we compiled historical valuation data and analyzed the actual number of new retirees that elect coverage at retirement in relation to the employer contribution for which they are eligible.

The next two tables present experience for new retirees, who were covered while active and continue coverage at retirement, broken out by:

- Year of retirement
- Percent of premium paid by employer

Overall participation for this group over the last five years was over 95 percent.

New Retirees Who Were Covered While Active - Overall Participation Experience			
Year	**Total Number of New Retirees**	**Total Number of New Retirees Electing Coverage**	**Actual Participation Rate**
2010	10,151	9,738	95.9%
2011	7,777	7,392	95.0%
2012	9,133	8,618	94.4%
2013	8,649	8,262	95.5%
2014	7,258	6,916	95.3%
Total	**42,968**	**40,926**	**95.2%**

New Retirees Who Were Covered While Active - Overall Participation Experience					
Employer Contribution Percent of Premium	**Total Number of New Retirees**	**Total Number of New Retirees Electing Coverage**	**Actual Participation Rate**	**Current Participation Rate Assumption**	**Proposed Participation Rate Assumption**
50% or less	3,691	2,808	76.1%	50.0%	75.0%
50% to 75%	4,812	4,369	90.8%	80.0%	90.0%
75% to 90%	2,024	1,914	94.6%	90.0%	95.0%
90% to 100%	32,441	31,835	98.1%	100.0%	98.0%
Total	**42,968**	**40,926**	**95.2%**	**93.0%**	**95.0%**

The proposed participation assumption is slightly higher than the current participation assumption. Therefore, more members that were covered as actives will be assumed to participate as retirees under the proposed assumption.

The next two tables present experience for new retirees, who were not covered while active and elect coverage at retirement, broken out by:

- Year of retirement
- Percent of premium paid by employer

Overall participation for this group over the last five years was over 36 percent.

New Retirees Who Were Not Covered While Active - Overall Participation Experience			
Year	**Total Number of New Retirees**	**Total Number of New Retirees Electing Coverage**	**Actual Participation Rate**
2010	1,756	658	37.5%
2011	1,610	661	41.1%
2012	1,880	693	36.9%
2013	1,828	681	37.3%
2014	1,447	438	30.3%
Total	**8,521**	**3,131**	**36.7%**

New Retirees Who Were Not Covered While Active - Overall Participation Experience					
Employer Contribution Percent of Premium	**Total Number of New Retirees**	**Total Number of New Retirees Electing Coverage**	**Actual Participation Rate**	**Current Participation Rate Assumption**	**Proposed Participation Rate Assumption**
50% or less	1,541	289	18.8%	25.0%	15.0%
50% to 75%	1,490	220	14.8%	40.0%	15.0%
75% to 90%	567	141	24.9%	45.0%	25.0%
90% to 100%	4,923	2,481	50.4%	50.0%	50.0%
Total	**8,521**	**3,131**	**36.7%**	**43.4%**	**35.9%**

The proposed participation assumption is lower than the current participation assumption. Therefore, fewer members that were not covered as active will be assumed to participate as retirees under the proposed assumption.

Finally, due to recent risk adjustments made to the premiums for the PERSCare plan, it is no longer necessary to make an additional participation assumption for those members participating in those plans.

Percent of Disabilities Treated as Post-Medicare

Some disabled members that are under the age of 65 are eligible for Medicare coverage. Currently it is assumed that 10 percent of Public Safety disabilities and 30 percent of all other disabilities are assumed to be eligible for Medicare.

In order to analyze this assumption, we reviewed the number of disabled members that are under the age of 65 that are currently receiving coverage under Medicare. The following table summarizes the results of the analysis.

Public Safety			
Year	**Total Number Disabled Under the Age of 65**	**Number Currently Medicare Eligible**	**Percent Medicare Eligible**
2008	9,980	608	6.1%
2009	9,996	554	5.5%
2010	9,811	413	4.2%
2011	9,782	389	4.0%
2012	9,820	357	3.6%
2013	9,751	358	3.7%
2014	8,967	368	4.1%
Total	**68,107**	**3,047**	**4.5%**

Non Public Safety			
Year	**Total Number Disabled Under the Age of 65**	**Number Currently Medicare Eligible**	**Percent Medicare Eligible**
2008	6,308	2,335	37.0%
2009	6,017	2,209	36.7%
2010	5,986	2,224	37.2%
2011	5,911	2,221	37.6%
2012	5,701	2,162	37.9%
2013	5,577	2,108	37.8%
2014	6,297	2,085	33.1%
Total	**41,797**	**15,344**	**36.7%**

As shown, approximately 4.5 percent of public safety and 36.7 percent of non-public safety disabled members under the age of 65 are currently receiving Medicare coverage.

Therefore, we recommend that 5 percent of Public Safety disabilities and 35 percent of all other disabilities are assumed to be eligible for Medicare.

Coverage and Continuance Assumptions

Currently, it is assumed that 40 percent of participating members will elect one-party coverage, while 60 percent will elect two-party coverage. Of the members electing two-party coverage, we assumed that 100 percent of surviving spouses would continue coverage after the death of the retiree.

In order to analyze this assumption, we reviewed the coverage election data for new retirees over the past five years. The following table shows the actual coverage election percentages.

Coverage Type	Total Number of New Retirees	Actual Coverage Type Rate	Proposed Coverage Type Rate
Single	16,304	37.0%	40.0%
Two Person	27,753	63.0%	60.0%
Total	**44,057**	**100%**	**100%**

As shown, the actual coverage election percentage was 37 percent of participating members elect one-party coverage, while 63 percent will elect two-party coverage. Therefore, we recommend maintaining the assumption that 40 percent of participating members elect one-party coverage, while 60 percent will elect two-party coverage

The data that is collected for the valuation does not contain enough information to analyze the continuation assumption. But, based on the fact that overall participation is very high and the generous State contribution, it is reasonable to assume that 100 percent of surviving spouses would continue coverage after the death of the retiree. We recommend maintaining this assumption.

Aging Factors

In any given year, the cost of medical and prescription drug benefits vary by age. As the ages of employees and retirees in the covered population increase so does the cost of benefits. Morbidity tables are employed to develop Per Capita Costs at every relevant age. The following table shows the current aging factors used in the most recent valuation and represents the percent by which the cost of benefits for non-disabled lives at one age is higher than the cost for the previous age. For example, according to the following table, the cost of benefits for a male in the PPO plan age 55 is 3.28 percent higher than for one age 54. These percentages below are separate from the annual Medical Trend, which operates to increase costs independent of and in addition to the Aging Factors shown below.

Sample Ages	Cost Increase by Age							
	Medical - PPO		Rx - PPO		HMO - Pre-Medicare		HMO - Post-Medicare	
	Male	Female	Male	Female	Male	Female	Male	Female
45	4.30%	2.77%	3.03%	3.82%	5.34%	2.37%	0.00%	0.00%
50	3.71%	2.57%	2.50%	3.37%	5.47%	4.29%	0.00%	0.00%
55	3.28%	2.40%	1.86%	2.99%	5.07%	3.28%	0.00%	0.00%
60	2.94%	2.25%	1.36%	2.08%	4.12%	1.31%	0.00%	0.00%
65	2.67%	2.12%	0.95%	1.40%	0.00%	0.00%	2.67%	2.12%
70	2.45%	2.01%	0.60%	0.85%	0.00%	0.00%	2.45%	2.01%
75	2.27%	1.91%	0.27%	0.36%	0.00%	0.00%	2.27%	1.91%
80	2.12%	1.81%	0.00%	0.00%	0.00%	0.00%	2.12%	1.81%
85	1.99%	1.73%	0.00%	0.00%	0.00%	0.00%	1.99%	1.73%
90	1.87%	1.66%	0.00%	0.00%	0.00%	0.00%	1.87%	1.66%

We have developed updated aging factors for the PPO medical and prescription drug plans based on gross claim and enrollment experience data broken out by five-year age intervals, for calendar years 2010 through 2013. Average gross costs were developed by gender at each age interval for each respective calendar year. These costs were weighted, smoothed and the average increase at each age was estimated using interpolation formulas. Aging factors for the HMO were calculated by adjusting the PPO medical factors to account for relative differences between HMO and PPO plans.

The table on the following page shows the updated aging factors.

Sample Ages	Cost Increase by Age					
	Medical - PPO		Rx - PPO		HMO	
	Male	Female	Male	Female	Male	Female
45	3.26%	1.48%	7.27%	6.56%	3.21%	1.58%
50	3.07%	1.61%	4.54%	4.20%	3.14%	1.67%
55	2.89%	1.69%	3.04%	2.84%	3.20%	1.90%
60	2.73%	1.75%	2.04%	1.92%	2.88%	1.98%
65	2.58%	1.78%	1.30%	1.22%	2.65%	1.89%
70	2.44%	1.80%	0.69%	0.64%	2.48%	1.85%
75	2.32%	1.79%	0.15%	0.11%	2.33%	1.82%
80	2.20%	1.78%	0.00%	0.00%	2.21%	1.79%
85	2.10%	1.75%	0.00%	0.00%	2.10%	1.76%
90	2.00%	1.72%	0.00%	0.00%	2.00%	1.73%

Generally speaking, the change in aging factors produced higher claims amounts for males and lower claim amounts for females. Details on the actual impact to the aged per capita claims costs are shown on the following pages.

Aged Per Capita Claim Costs Based On Updated Aging Factors – Medical and Prescription

Per capita claims costs were developed separately for PERS Choice, PERSCare and the HMO plans. Costs for the PERS Choice and PERSCare plans were based on paid and incurred experience and enrollment information. Costs for the HMO plans were based on the aggregate premium and enrollment data for active and retired members. The per capita costs for PERS Select and the two association PPOs (CAHP and PORAC) are developed using costs for PERS Choice adjusted by the ratio of single premium for the association plan and PERS Choice.

As a result of the updated aging factors, the average costs used in the most recent valuation for each respective plan would change as follows:

Costs for Retirees and Spouses Expected Monthly Per Capita Costs						
	PERS Choice - PPO					
	Medical					
	Male			Female		
Age	Current	Proposed	Change	Current	Proposed	Change
50	$479.19	$509.07	6.2%	$479.19	$509.07	6.2%
55	574.95	592.11	3.0%	544.12	551.29	1.3%
60	675.48	682.85	1.1%	612.72	599.57	-2.1%
65	130.57	134.83	3.3%	114.55	112.86	-1.5%
70	148.97	153.15	2.8%	127.25	123.28	-3.1%
75	168.17	172.79	2.7%	140.56	134.76	-4.1%
80	188.16	193.76	3.0%	154.49	147.28	-4.7%
	Prescription					
	Male			Female		
	Current	Proposed	Change	Current	Proposed	Change
50	$138.00	$128.12	-7.2%	$138.00	$128.12	-7.2%
55	156.18	160.00	2.4%	162.92	157.39	-3.4%
60	171.26	185.83	8.5%	188.74	181.04	-4.1%
65	137.22	149.97	9.3%	156.63	145.19	-7.3%
70	143.89	160.00	11.2%	167.91	154.25	-8.1%
75	148.25	165.62	11.7%	175.15	159.21	-9.1%
80	150.30	166.84	11.0%	178.36	160.07	-10.3%

Costs for Retirees and Spouses Expected Monthly Per Capita Costs						
	PERSCare - PPO					
	Medical					
	Male			Female		
Age	Current	Proposed	Change	Current	Proposed	Change
50	$836.79	$903.93	8.0%	$836.79	$903.93	8.0%
55	1,004.03	1,051.39	4.7%	950.18	978.90	3.0%
60	1,179.57	1,212.52	2.8%	1,069.97	1,064.64	-0.5%
65	147.08	153.48	4.4%	129.04	128.46	-0.4%
70	167.81	174.33	3.9%	143.34	140.33	-2.1%
75	189.43	196.69	3.8%	158.34	153.39	-3.1%
80	211.95	220.56	4.1%	174.02	167.65	-3.7%
	Prescription					
	Male			Female		
	Current	Proposed	Change	Current	Proposed	Change
50	$196.51	$182.77	-7.0%	$196.51	$182.77	-7.0%
55	222.39	228.24	2.6%	231.99	224.52	-3.2%
60	243.87	265.10	8.7%	268.76	258.25	-3.9%
65	145.22	162.98	12.2%	165.76	157.78	-4.8%
70	152.28	173.88	14.2%	177.69	167.63	-5.7%
75	156.89	179.99	14.7%	185.36	173.02	-6.7%
80	159.06	181.31	14.0%	188.75	173.96	-7.8%

Costs for Retirees and Spouses Expected Monthly Per Capita Costs						
	HMO Plans					
	Medical/RX					
	Male			Female		
Age	Current	Proposed	Change	Current	Proposed	Change
50	$564.59	$617.25	9.3%	$625.17	$682.67	9.2%
55	735.95	721.00	-2.0%	757.14	740.84	-2.2%
60	946.04	843.61	-10.8%	898.61	812.00	-9.6%
65	254.48	259.04	1.8%	239.95	238.60	-0.6%
70	290.34	295.21	1.7%	266.54	262.08	-1.7%
75	327.76	333.60	1.8%	294.42	287.25	-2.4%
80	366.72	374.36	2.1%	323.59	314.36	-2.9%

Adjustments for Disabled Members

Currently in the valuation, claims for disabled members are increased by 15 percent if not eligible for Medicare and 50 percent if eligible for Medicare.

Credible data is not available; therefore, based on industry standard information, we recommend lowering the increased claims assumption for disabled members to 10 percent if not eligible for Medicare and 40 percent if eligible for Medicare.

Adjustments for Children

Claims for current retirees and survivors of retirees with children are increased to account for claims generated by the children. Currently, this increase is equal to 10 percent for medical claims and 15 percent for dental claims. We recommend lowering the loads to 8 percent for medical and 10 percent for dental. Furthermore, we recommend that the loads are removed once the retiree or survivor reaches the age of 65.

Currently, claims for future retirees and survivors of future retirees with children are not increased to account for claims generated by the children. Based on the current retiree contract mix for single, two-person, and family contracts, and the children's claims load of 8 percent for medical claims and 10 percent for dental claims, we recommend increasing the composite loads to 2 percent for medical claims and 3 percent for dental claims. Furthermore, we recommend that the composite loads be removed once the retiree or survivor reaches age 65.

Per Capita Claim Costs – Dental

The following table represents the assumed per capita dental claims costs for sample ages used in the most recent valuation. Costs were developed separately for DPO/Indemnity and the Pre-Paid Plans, based on actual premium, claim and enrollment data. Because dental costs generally do not vary by age or gender, they remain unchanged as a result of this experience analysis.

Costs for Retirees and Spouses Expected Monthly Per Capita Costs - Non CSU Retirees				
	Dental Plans			
	DPO/Indemnity		Pre-Paid Plans	
Age	First Person	Second Person	First Person	Second Person
50	$49.66	$37.60	$18.98	$11.48
55	49.66	37.60	18.98	11.48
60	49.66	37.60	18.98	11.48
65	49.66	37.60	18.98	11.48
70	49.66	37.60	18.98	11.48
75	49.66	37.60	18.98	11.48
80	49.66	37.60	18.98	11.48

Costs for Retirees and Spouses Expected Monthly Per Capita Costs - CSU Retirees				
	Dental Plans			
	DPO/Indemnity		Pre-Paid Plans	
Age	First Person	Second Person	First Person	Second Person
50	$31.59	$26.59	$22.00	$13.20
55	31.59	26.59	22.00	13.20
60	31.59	26.59	22.00	13.20
65	31.59	26.59	22.00	13.20
70	31.59	26.59	22.00	13.20
75	31.59	26.59	22.00	13.20
80	31.59	26.59	22.00	13.20

We recommend maintaining the methodology currently being used to develop the dental claims costs.

Medicare Part B Premiums

Currently, members are assumed to pay $104.90 in 2014. Furthermore, the valuation currently assumes Social Security benefits increase at 3.0 percent per year and will be sufficient to cover projected increases in the Part B premium. Our valuation does not consider the member's income when estimating Part B premiums.

We recommend maintaining these assumptions relevant to Medicare Part B premiums.

Employer Group Waiver Plan

Currently, the per capita costs include approximately 35 percent savings for PERSCare, 32 percent savings for PERS Choice and six percent savings for the HMO plans remaining as of June 30, 2014, due to the EGWP-Wrap plan design. It was assumed that the EGWP savings would wear away ratably from 2014 to 2020, and the trend rates for post-Medicare prescription benefits were adjusted accordingly.

The remaining savings included in the per capita claims costs are reviewed each year during the valuation process. We recommend maintaining this annual review as well as the assumption that the EGWP savings would wear away ratably from 2014 to 2020.

Actuarial Cost Method, Amortization Method and Asset Valuation Method

The ultimate cost of the plan is equal to the total benefits paid out plus the expenses related to operating the plan. The projected level and timing of the contributions needed to fund the ultimate cost are determined by the actuarial assumptions, plan provisions, participant characteristics, investment experience and the actuarial cost method.

An actuarial cost method is a mathematical process for determining and allocating the dollar amount of the total present value of plan benefits between future normal costs and the actuarial accrued liability.

As previously stated, the Actuarial Standards Board (ASB) promulgates actuarial standards of practice (ASOPs) for use by actuaries when providing professional services in the United States.

The current ASOP particularly relevant to the actuarial method setting process include:

- ASOP No. 6 Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions

The current cost method used is the individual entry-age normal actuarial cost method. Under the current cost method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level percent of payroll basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of the actuarial present value allocated to a valuation year is the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is the actuarial accrued liability. The sum of the accrued liability plus the present value of all future normal costs is the present value of all benefits.

Unfunded actuarial accrued liabilities are amortized to produce payments (principal & interest), which are a level percent of payroll, over a 30-year period. For the Legislative Retirement System, unfunded actuarial accrued liabilities (UAAL) are amortized to produce level-dollar payments (principal & interest), over a 10-year period because it is a closed group. This is a reasonable approach to determining the portion of the Annual Required Contribution under GASB 45 attributable to the unfunded accrued liability.

Assets for Bargaining Units participating in the California Employers' Benefit Trust (CERBT) are allocated to the various pension groups based upon the accrued liability calculated as of the prior valuation date in the GASB 43 valuations for each respective Bargain Unit. Assets are valued at market value.

Data Processing Assumptions

Each year due to certain data limitations, certain assumptions are made during data processing. In the past, these assumptions have been immaterial to the results of the valuation. We recommend that each year, the data is reviewed and it is determined whether or not certain assumptions are necessary. Furthermore, any assumption pertaining to data processing will be disclosed in the actuarial valuation report.

SECTION III

COST IMPACT OF RECOMMENDED CHANGES

If approved by the SCO, the proposed assumptions will first be used in the actuarial valuation as of June 30, 2015. Below we have presented the impact of changing the assumptions on the June 30, 2014. This is presented for informational purposes only.

CALIFORNIA STATE EMPLOYEES
OPEB ACTUARIAL VALUATION RESULTS AS OF JUNE 30, 2014 ($ in '000s)
PAY-AS-YOU-GO FUNDING POLICY (4.250%)

	Current Assumptions	Proposed Assumptions	Change
Number of Participants Covered			
Active Participants	260,731	260,731	0
Retired Participants	167,839	167,839	0
Total Participants	428,570	428,570	0
Actuarial Present Value of Proj. Benefits			
Active Participants	$64,086,591	$62,097,677	($1,988,914)
Retired Participants	36,436,014	35,739,411	(696,603)
Total Participants	$100,522,605	$97,837,088	($2,685,517)
Actuarial Accrued Liability			
Active Participants	$35,378,683	$34,247,328	($1,131,355)
Retired Participants	36,436,014	35,739,411	(696,603)
Total Participants	$71,814,697	$69,986,739	($1,827,958)
Actuarial Value of Assets	$41,334	$41,334	$0
Unfunded Actuarial Accrued Liability	$71,773,363	$69,945,405	($1,827,958)
Annual Required Contribution of the Employer (ARC) for YE 6/30/15 [a]			
Normal Cost	$2,449,893	$2,449,893	$0
Amortization of UAAL	2,627,976	2,627,976	0
Total ARC for FYE 6/30/15	**$5,077,869**	**$5,077,869**	**$0**
Per Active Participant (not in '000s)	$19,476	$19,476	$0
Annual OPEB Cost (AOC) for YE 6/30/15			
ARC for FYE 6/30/15	$5,077,869	$5,077,869	$0
Interest on NOO at 6/30/14	822,890	822,890	0
Adjustment to the ARC	(765,149)	(765,149)	0
Total AOC for FYE 6/30/15	**$5,135,610**	**$5,135,610**	**$0**
Expected Net Employer Contribution for FYE 6/30/15	**$1,869,461**	**$1,818,378**	**($51,083)**
Actual Net OPEB Obligation at 6/30/14	**$19,362,122**	**$19,362,122**	**$0**
Expected Net OPEB Obligation at 6/30/15	**$22,628,271**	**$22,679,354**	**$51,083**

[a] *Based on results of actuarial valuation as of June 30, 2013, projected to June 30, 2014, using a wage inflation assumption of 3.00 percent. For the Legislative Retirement System, the UAAL is amortized over a ten-year period as a level dollar amount.*

CALIFORNIA STATE EMPLOYEES OPEB ACTUARIAL VALUATION RESULTS AS OF JUNE 30, 2014 ($ in '000s) PAY-AS-YOU-GO FUNDING POLICY (4.250%) DEVELOPMENT OF FYE 2016 ANNUAL REQUIRED CONTRIBUTION			
	Current Assumptions	**Proposed Assumptions**	**Change**
ARC based on 6/30/14 valuation			
Normal Cost	$2,621,278	$2,549,007	($72,271)
Amortization of UAAL	2,835,601	2,763,398	(72,203)
Total ARC	**$5,456,879**	**$5,312,405**	**($144,474)**
ARC for YE 6/30/16			
Normal Cost	$2,699,916	$2,625,478	($74,438)
Amortization of UAAL	2,920,670	2,846,300	(74,370)
Total ARC for YE 6/30/16 [a]	**$5,620,586**	**$5,471,778**	**($148,808)**

[a] *For fiscal year-end June 30, 2016, the ARC will be based on the results of the actuarial valuation as of June 30, 2014, projected to the following year. That is, the ARC will increase by the wage inflation assumption of 3.00 percent.*

CALIFORNIA STATE EMPLOYEES EXPECTED NET EMPLOYER CASH FLOW - FY 2015 ($ in '000s)			
	Current Assumptions	**Proposed Assumptions**	**Change**
Employer Share of Claims Costs			
Explicit Costs [a]			
Medical and Rx Claims	$1,335,396	$1,334,860	($536)
Part B Reimbursement	195,136	195,110	(26)
Dental Claims	97,700	97,507	(193)
Total	**$1,628,232**	**$1,627,477**	**($755)**
Implicit Costs	**$241,229**	**$190,901**	**($50,328)**
Total Employer Costs [b]	**$1,869,461**	**$1,818,378**	**($51,083)**
Retiree Share of Claim Costs			
Medical and Rx Claims	$65,989	$66,582	$593
Dental Claims	25,804	25,763	(41)
Total	**$91,793**	**$92,345**	**$552**
Total Claims Costs	**$1,961,254**	**$1,910,723**	**($50,531)**

[a] The explicit employer cost is an estimate of the employer paid premium for the fiscal year-end June 30, 2015. It is based on an actuarial projection of the retiree population using the demographic assumptions contained in Sections E and F of the report, and a projection of premium rates assuming actual trend for fiscal year-end June 30, 2015. The actual explicit employer subsidy will be updated based on the actual blended premium paid by the employer during the fiscal year.

[b] The total employer costs, comprised of the explicit and implicit subsidy, will also be updated at fiscal year-end, as the actual claim experience for retired members becomes available.

SECTION IV

GLOSSARY

Accrued Service. The service credited under the plan, which was rendered before the date of the actuarial valuation.

Actuarial Accrued Liability (AAL). The difference between (i) the actuarial present value of future plan benefits; and (ii) the actuarial present value of future normal cost, which is sometimes referred to as "accrued liability" or "past service liability."

Actuarial Assumptions. Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Demographic assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

Actuarial Cost Method. A mathematical budgeting procedure for allocating the dollar amount of the "actuarial present value of future plan benefits" between the actuarial present value of future normal cost and the actuarial accrued liability. Sometimes referred to as the "actuarial funding method."

Actuarial Equivalent. A single amount or series of amounts of equal value to another single amount or series of amounts, computed on the basis of the rate(s) of interest and mortality tables used by the plan.

Actuarial Present Value. The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Actuarial Value of Assets. The value of cash, investments, and other property belonging to a pension or OPEB plan, as used by the actuary for the purpose of an actuarial valuation.

Amortization. Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.

Annual OPEB Cost (AOC). An accrual-basis measure of the periodic cost of an employer's participation in a defined OPEB plan.

Annual Required Contribution (ARC). The ARC is the normal cost plus the portion of the unfunded actuarial accrued liability to be amortized in the current period. The ARC is an amount that is actuarially determined in accordance with the requirements so that, if paid on an ongoing basis, it would be expected to provide sufficient resources to fund both the normal cost for each year and the amortized unfunded liability.

Discount Rate. The rate used to adjust a series of future payments to reflect the time value of money.

Entry-Age Normal Cost Actuarial Method. A method under which the actuarial present value of projected benefits of each individual included in the actuarial valuation is allocated on

a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost.

Expected Net Employer Contributions. The difference between the age-adjusted premium or expected retiree healthcare claims and retired member's share of the premium. This amount is used to offset the Annual OPEB Cost during the fiscal year.

Explicit Rate Subsidy. The portion of the premium paid by the employer. The premium may be based on the experience of active and retired members or retired members only.

Governmental Accounting Standards Board (GASB). GASB is the private, nonpartisan, nonprofit organization that works to create and improve the rules U.S. state and local governments follow when accounting for their finances and reporting them to the public.

Implicit Rate Subsidy. The de facto subsidy of retirees by permitting them to pay lower than age-adjusted premiums through the use of a single common or blended premium for both retirees and active employees.

Medical Trend Rate (Health Inflation). The increase in the plan's cost over time. Trend includes all elements that may influence a plan's cost, assuming those enrollments and the plan benefits do not change. Trend includes such elements as pure price inflation, changes in utilization, advances in medical technology, and cost shifting.

Net OPEB Obligation (NOO). An accounting liability when an employer doesn't fully fund the ARC.

Normal Cost. The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as "current service cost." Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.

Other Postemployment Benefits (OPEB). OPEB are postemployment benefits other than pensions. OPEB generally takes the form of health insurance and dental, vision, prescription drugs or other healthcare benefits.

Pay-As-You-Go Funding. A method of financing benefits by making required benefit payments only as they come due.

Plan Member. A plan's membership includes active service employees, terminated employees who are eligible to receive benefits but are not receiving them, and retired employees and beneficiaries currently receiving benefits.

Pooled Money Investment Account (PMIA). An account administered by the Pooled Money Investment Board in the State of California that is limited to investments in the following categories: U.S. government securities, securities of federally-sponsored agencies, domestic corporate bonds, interest-bearing time deposits in California banks, savings and loan associations and credit unions, prime-rated commercial paper, repurchase and reverse

repurchase agreements, security loans, banker's acceptances, negotiable certificates of deposit and loans to various bond funds.

Pre-Funding. A method of financing benefits by placing resources in trust as employees earn benefits so that the resources thus accumulated, along with related earnings, can be used to make benefit payments as they become due.

Present Value of all Projected Benefits. The present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value of money and the probabilities of payment.

Qualified Plan. A qualified plan is an employer-sponsored retirement plan that qualifies for special tax treatment under Section 401(a) of the Internal Revenue Code.

Reserve Account. An account used to indicate that funds have been set-aside for a specific purpose and are not generally available for other uses.

State Plan of the California Public Employees' Retirement System. Consists of, all State Miscellaneous employees (including CSU), State Industrial Members, Highway Patrol, State Police Officers and Firefighters (including CSU) and Other State Safety Employees.

Unfunded Actuarial Accrued Liability (UAAL). The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as "unfunded accrued liability."

Valuation Assets. The value of current plan assets recognized for valuation purposes.