July 25, 2007

To: Board Members

From: Tom Bishop

Subject: Report: DMCTA President, David Skinner

DMCTA President, David Skinner, may be present in the audience but has no report to present this month.

FISCAL IMPACT: None.

RECOMMENDED: For information only. No action required.

4.1

July 25, 2007

To: Board Members

From: Tom Bishop

Subject: Report: Del Mar School Education Foundation

Jennifer McCroskey, DMSEF Representative, will provide a brief report on DMSEF activities during the past month in the absence of DMSEF President Bob Gans.

FISCAL IMPACT: None.

RECOMMENDED: For information only. No action required.

4.2

July 27, 2007

To: Board Members

From: Dena Whittington

Through: Tom Bishop

Subject: Board Acceptance of Actuarial Valuation date January 1, 2007 as Prepared by The Epler Company

The Governmental Accounting Standards Board (GASB) issued Statements 43 and 45 in 2004. These statements require public agencies to report their costs and obligations pertaining to health and other benefits of current and future retired employees. GASB 43 and 45 require that the liability for these other post-employment benefits (OPEBs) including such benefits as medical, dental, vision, hearing, life insurance, long-term care and long-term disability, be reported as part of the District's annual financial statements.

The compliance requirement deadline for GASB Statements 43 and 45 are dependent on the size of the district's revenues in 2000 and are scheduled in three phases. The Del Mar Union School District is included in Phase II with implementation for 2008/2009 and will need to have an actuarial valuation completed to meet the compliance requirements. The results of the actuarial study will be shared with the Board once completed

Attached please find the Del Mar Union School District Actuarial Valuation as of January 1, 2007. Marilyn Jones, ASA, MAAA, EA, Vice President and Actuary will be presenting the report. She will be available for questions after the presentation.

Funding of the District's GASB 45 liability is not required at this time. Funding options do exist and is an option the Board of Trustees may like to consider. The Business Office would like to bring this topic back at a later date to present various funding options available to the Board of Trustees.

FISCAL IMPACT: Acceptance of this report does not change revenue, expenditures or reserves in the General Fund. The $2.6 million dollar liability will be reflected on the 2008-09 DMUSD Audit Report.

RECOMMENDED: The Superintendent Recommends That the Board of Trustees Accepts the Actuarial Valuation as of January 1, 2007 as prepared by The Epler Company.

4.3

Governmental Accounting Standards Board

Summaries / Status

Summary of Statement No. 45
Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions
(Issued 6/04)

In addition to pensions, many state and local governmental employers provide *other postemployment benefits* (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes *postemployment healthcare,* as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* with modifications to reflect differences between pension benefits and OPEB. Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* addresses financial statement and disclosure requirements for reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports.

How This Statement Improves Financial Reporting

Postemployment benefits (OPEB as well as pensions) are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service, whereas other benefits, including postemployment healthcare and other OPEB, are taken after the employees' services have ended. Nevertheless, both types of benefits constitute compensation for employee services.

From an accrual accounting perspective, the cost of OPEB, like the cost of pension benefits, generally should be associated with the periods in which the exchange occurs, rather than with the periods (often many years later) when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis, and financial statements generally do not report the financial effects of OPEB until the promised benefits are paid. As a result, current financial reporting generally fails to:

- Recognize the *cost* of benefits in periods when the related services are received by the employer

- Provide information about the *actuarial accrued liabilities* for promised benefits associated with past services and whether and to what extent those benefits have been funded

- Provide information useful in assessing potential demands on the employer's future cash flows.

This Statement improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

Summary of Standards

Measurement (the Parameters)

Employers that participate in *single-employer* or *agent multiple-employer defined benefit* OPEB plans (sole and agent employers) are required to measure and disclose an amount for annual OPEB cost on the accrual basis of accounting. Annual OPEB cost is equal to the employer's annual required contribution to the plan (ARC), with certain adjustments if the employer has a net OPEB obligation for past under- or overcontributions.

The ARC is defined as the employer's required contributions for the year, calculated in accordance with certain parameters, and includes (a) the normal cost for the year and (b) a component for amortization of the total unfunded actuarial accrued liabilities (or funding excess) of the plan over a period not to exceed thirty years. The parameters include requirements for the frequency and timing of actuarial valuations as well as for the actuarial methods and assumptions that are acceptable for financial reporting. If the methods and assumptions used in determining a plan's funding requirements meet the parameters, the same methods and assumptions are required for financial reporting by both a plan and its participating employer(s). However, if a plan's method of financing does not meet the parameters (for example, the plan is financed on a pay-as-you-go basis), the parameters nevertheless apply for financial reporting purposes.

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, or at least triennially for plans with a total membership of fewer than 200. The projection of benefits should include all benefits covered by the current *substantive plan* (the plan as understood by the employer and plan members) at the time of each valuation and should take into consideration the pattern of sharing of benefit costs between the employer and plan members to that point, as well as certain legal or contractual caps on benefits to be provided. The

parameters require that the selection of actuarial assumptions, including the *healthcare cost trend rate* for postemployment healthcare plans, be guided by applicable actuarial standards.

Alternative Measurement Method

A sole employer in a plan with fewer than one hundred total plan members (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retirees and beneficiaries currently receiving benefits) has the option to apply a simplified *alternative measurement method* instead of obtaining actuarial valuations. The option also is available to an agent employer with fewer than one hundred plan members, in circumstances in which the *employer's* use of the alternative measurement method would not conflict with a requirement that the *agent multiple-employer plan* obtain an actuarial valuation for plan reporting purposes. Those circumstances are:

- The plan issues a financial report prepared in conformity with the requirements of Statement 43 but is not required to obtain an actuarial valuation because (a) the plan has fewer than one hundred total plan members (all employers) and is eligible to use the alternative measurement method, or (b) the plan is not administered as a qualifying trust, or equivalent arrangement, for which Statement 43 requires the presentation of actuarial information.

- The plan does not issue a financial report prepared in conformity with the requirements of Statement 43.

This alternative method includes the same broad measurement steps as an actuarial valuation (projecting future cash outlays for benefits, discounting projected benefits to present value, and allocating the present value of benefits to periods using an actuarial cost method). However, it permits simplification of certain assumptions to make the method potentially usable by nonspecialists.

Net OPEB Obligation—Measurement

An employer's net OPEB obligation is defined as the cumulative difference between annual OPEB cost and the employer's contributions to a plan, including the OPEB liability or asset at transition, if any. (Because retroactive application of the measurement requirements of this Statement is not required, for most employers the OPEB liability at the beginning of the transition year will be zero.) An employer with a net OPEB obligation is required to measure annual OPEB cost equal to (a) the ARC, (b) one year's interest on the net OPEB obligation, and (c) an adjustment to the ARC to offset the effect of actuarial amortization of past under- or overcontributions.

Financial Statement Recognition and Disclosure

Sole and agent employers should recognize OPEB expense in an amount equal to annual OPEB cost in government-wide financial statements and in the financial statements of proprietary funds and

fiduciary funds from which OPEB contributions are made. OPEB expenditures should be recognized on a modified accrual basis in governmental fund financial statements. Net OPEB obligations, if any, including amounts associated with under- or overcontributions from governmental funds, should be displayed as liabilities (or assets) in government-wide financial statements. Similarly, net OPEB obligations associated with proprietary or fiduciary funds from which contributions are made should be displayed as liabilities (or assets) in the financial statements of those funds.

Employers are required to disclose descriptive information about each defined benefit OPEB plan in which they participate, including the funding policy followed. In addition, sole and agent employers are required to disclose information about contributions made in comparison to annual OPEB cost, changes in the net OPEB obligation, the funded status of each plan as of the most recent actuarial valuation date, and the nature of the actuarial valuation process and significant methods and assumptions used. Sole and agent employers also are required to present *as RSI* a schedule of funding progress for the most recent valuation and the two preceding valuations, accompanied by notes regarding factors that significantly affect the identification of trends in the amounts reported.

Cost-Sharing Employers

Employers participating in *cost-sharing multiple-employer* plans that are administered as trusts, or equivalent arrangements, in which (a) employer contributions to the plan are irrevocable, (b) plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan, and (c) plan assets are legally protected from creditors of the employers or plan administrator, should report as cost-sharing employers. Employers participating in multiple-employer plans that do not meet those criteria instead are required to apply the requirements of this Statement that are applicable to agent employers.

Cost-sharing employers are required to recognize OPEB expense/expenditures for their *contractually required contributions* to the plan on the accrual or modified accrual basis, as applicable. Required disclosures include identification of the way that the contractually required contribution rate is determined (for example, by statute or contract or on an actuarially determined basis). Employers participating in a cost-sharing plan are required to present as RSI schedules of funding progress and employer contributions for the plan as a whole if a plan financial report, prepared in accordance with Statement 43, is not issued and made publicly available and the plan is not included in the financial report of a public employee retirement system or another entity.

Other Guidance

Employers that participate in *defined contribution* OPEB plans are required to recognize OPEB expense/expenditures for their required contributions to the plan and a liability for unpaid required contributions on the accrual or modified accrual basis, as applicable.

This Statement also includes guidance for employers that finance

OPEB as insured benefits (as defined by this Statement) and for special funding situations.

Effective Dates and Transition

This Statement generally provides for prospective implementation—that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. Implementation is required in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999. The definitions and cutoff points for that purpose are the same as those in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.* This Statement is effective for periods beginning after December 15, 2006, for *phase 1 governments* (those with total annual revenues of $100 million or more); after December 15, 2007, for *phase 2 governments* (those with total annual revenues of $10 million or more but less than $100 million); and after December 15, 2008, for *phase 3 governments* (those with total annual revenues of less than $10 million). Earlier implementation is encouraged.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraphs 4 and 6 discuss the applicability of this Statement.

GASB STATEMENT 45 ON OPEB ACCOUNTING BY GOVERNMENTS A FEW BASIC QUESTIONS AND ANSWERS

1. Why was Statement 45 on OPEB accounting by governments necessary?

Statement 45 was issued to provide more complete, reliable, and decision-useful financial reporting regarding the costs and financial obligations that governments incur when they provide postemployment benefits other than pensions (OPEB) as part of the compensation for services rendered by their employees. *Postemployment healthcare benefits,* the most common form of OPEB, are a very significant financial commitment for many governments.

2. How was OPEB accounting and financial reporting done prior to Statement 45?

Prior to Statement 45, governments typically followed a "pay-as-you-go" accounting approach in which the cost of benefits is not reported until after employees retire. However, this approach is not comprehensive—only revealing a limited amount of data and failing to account for costs and obligations incurred as governments receive employee services each year for which they have promised future benefit payments in exchange.

3. What does Statement 45 accomplish?

- When they implement Statement 45, many governments will report, for the first time, annual OPEB cost and their unfunded actuarial accrued liabilities for past service costs. This will foster improved accountability and a better foundation for informed policy decisions about, for example, the level and types of benefits provided and potential methods of financing those benefits.

The Standard also:

- Results in reporting the estimated cost of the benefits as expense each year *during the years that employees are providing services* to the government and its constituents in exchange for those benefits.
- Provides, to the diverse users of a government's financial reports, more accurate information about the *total cost of the services* that a government provides to its constituents.
- Clarifies whether the amount a government has paid or contributed for OPEB during the report year has covered its annual OPEB cost. Generally, the more of its annual OPEB cost that a government chooses to defer, the higher will be (a) its unfunded actuarial accrued liability and (b) the cash flow demands on the government and its tax or rate payers in future years.
- Provides better information to report users about a government's *unfunded actuarial accrued liabilities* (the difference between a government's total obligation for OPEB and any assets it has set aside for financing the benefits) and changes in the *funded status of the benefits* over time.

4. **What are the most common misconceptions about Statement 45?**

   a. **That it requires governments to fund OPEB.** Statement 45 establishes standards for *accounting and financial reporting.* How a government actually finances benefits is a policy decision made by government officials. The objective of Statement 45 is to more accurately reflect the financial effects of OPEB transactions, including the amounts paid or contributed by the government, whatever those amounts may be.

   b. **That it requires immediate reporting of a financial-statement liability for the entire unfunded actuarial accrued liability.** Statement 45 does not require immediate recognition of the unfunded actuarial accrued liability (UAAL) as a financial-statement liability. The requirements regarding the reporting of an OPEB liability on the face of the financial statements work as follows:

      - Governments may apply Statement 45 prospectively. At the beginning of the year of implementation, nearly all governments will start with zero financial-statement liability.
      - From that point forward, a government will accumulate a liability called the *net OPEB obligation,* if and to the extent its actual OPEB contributions are less than its annual OPEB cost, or expense.
      - The net OPEB obligation (not the same as the UAAL) will increase rapidly over time if, for example, a government's OPEB financing policy is pay-as-you-go, and the amounts paid for current premiums are much less than the annual OPEB cost.

      Statement 45 does, however, also require the *disclosure* of information about the *funded status* of the plan, including the UAAL, in the notes to the financial statements—and the presentation of multi-year funding progress trend information as a required supplementary schedule.

   c. **That it requires governments to report "future costs" for OPEB.** It is misleading and incorrect to describe accrual accounting for OPEB as requiring the expensing of "future costs." From an accrual accounting standpoint (the basis of accounting required for all transactions in the government-wide financial statements), the reported expenses relate entirely to transactions (exchanges of employee services for the promised future benefits) that *already have occurred.* Statement 45 requires governments to report costs and obligations incurred as a consequence of receiving employee services, for which benefits are owed in exchange. The *normal cost* component of annual expense is the portion of the present value of estimated total benefits that is attributed to services received in the current year. The annual expense also includes an amortization component representing a portion of the UAAL, which relates to past service costs. Estimated benefit costs associated with *projected future years of service* are *not reported.*

Del Mar Union School District

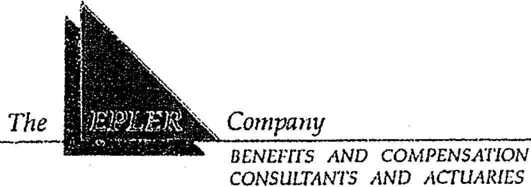
Actuarial Valuation

As of January 1, 2007

Prepared by:

The Epler Company
450 "B" Street, Suite 750
San Diego, CA 92101
(619) 239-0831

May 2007



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May 3, 2007

PRIVATE

Ms. Dena Whittington
Assistant Superintendent of Business Services
Del Mar Union School District
225 Ninth Street
Del Mar, CA 92014

Re: Del Mar Union School District Actuarial Valuation

Dear Ms. Whittington:

We are presenting our report of the actuarial valuation conducted on behalf of Del Mar Union School District (the "District") for its retiree health program, as of January 1, 2007.

The purpose of the report is to measure the District's liability for retiree health benefits and the impact on the District's future accounting requirements under the Government Accounting Standard Board Statements No. 43 & 45 ("GASB 43 & 45") in regard to unfunded liabilities for retiree health benefits. The objective of GASB 45 is to improve the information in the financial reports of government entities regarding their post-employment benefits ("OPEB") including retiree health benefits. The objective of GASB 43 is to establish uniform reporting for OPEB Plans.

The Epler Company is a San Diego-based, independently owned actuarial, benefits and compensation consulting firm located in San Diego, specializing in group health, retiree health valuations, and qualified pension plan valuations. We have set forth the results of our study in this report, and are available to answer any questions the District may have concerning the contents of the report.

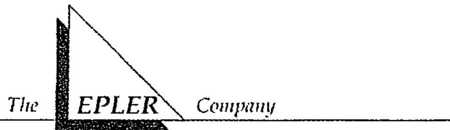
We have enjoyed working on this assignment and are available to answer any questions.

Sincerely,
THE EPLER COMPANY

Marilyn K Jones, ASA, MAAA, EA
Vice President and Actuary

MKJ:mj
Enclosure

As required by U.S. Treasury Regulations governing tax practice, IRS Circular 230 Tax Advice Disclaimer, you are hereby advised that any written tax advice contained herein was not written or intended to be used (and cannot be used) by any taxpayer for the purpose of avoiding penalties that may be imposed under the U.S. Internal Revenue Code.



Del Mar Union School District
Actuarial Valuation as of January 1, 2007

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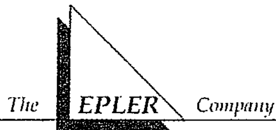
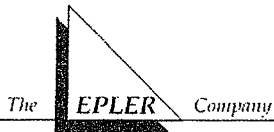


Section I. Executive Summary

Background

The Del Mar Union School District (the "District") selected The Epler Company to perform an actuarial valuation of its retiree health program. The purpose of the actuarial valuation is to measure the District's liability for retiree health benefits and to estimate the District's accounting requirements for other postemployment benefits ("OPEB Benefits") under the recently issued Governmental Accounting Standards Board Statements No. 43 & 45 ("GASB 43" and "GASB 45"). GASB 45 is a new accounting standard that will require accrual accounting for the expensing of OPEB Benefits. The expense is generally accrued over the working career of employees, rather than on a pay-as-you-go basis, which has been the practice for most governmental entities and public sector organizations. OPEB Benefits generally include post-employment health benefits (medical, dental, vision, prescription drug and mental health), life insurance, disability benefits and long term care benefits. GASB 43 is also a new accounting standard that requires additional financial disclosure requirements for funded OPEB Plans. Adoption of these accounting standards is required for financial statements effective as early as the 2007 fiscal year.

The District currently provides retiree health benefits to age 65 to approximately 348 active and 16 retired employees. Hourly and part-time employees are not eligible for retiree health benefits. To be eligible for retiree health benefits, an employee must retire from PERS or STRS and their age plus years of District service at retirement must be 75 or greater. In general, the District's contribution for retiree health coverage is equivalent to the contribution provided to an active employee which is subject to an annual maximum. Section V of the report details the plan provisions that were included in the valuation and the current premium costs for coverage. As the premiums billed for retiree medical coverage under age 65 are the same as those for active medical coverage, the District is providing a "rate subsidy" to the retirees. GASB 45 requires that when an employer provides benefits to both active employees and retirees through the same plan, the benefits to retirees should be segregated and measured independently. This requires valuing any "rate subsidy" as an additional financial obligation to the District.



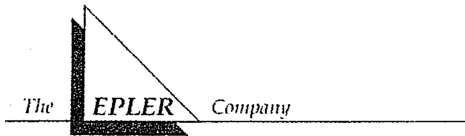
Results of the Retiree Health Valuation

We have determined that the amount of the actuarial liability for the District's retiree health plan as of January 1, 2007, the measurement date, is $7.4 million (including $1.7 million for the rate subsidy). This amount represents the present value of all benefits projected to be paid by the District for current and future retirees. If the District were to place this amount in a fund earning interest at the rate of 5% 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 the current retirees as well as the current active employees expected to retire in the future. The valuation does not consider employees not yet hired as of the valuation date. If the amount of the actuarial liability is apportioned into past service, current service and future service components, the past service component (actuarial accrued liability) is $2.5 million (including $0.6 million for the rate subsidy) and the current service component (normal cost) is $313,000 (including $74,000 for the rate subsidy).

Funding and Expense

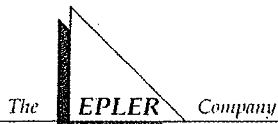
The District has not informed us of any funds eligible as plan assets under GASB 45. Under GASB 45, assets cannot be considered as employer contributions or plan assets unless they are segregated for exclusive use for retiree health benefit payments and secured from creditors of the District.

Currently the District expenses and funds for retiree health benefits on a pay-as-you-go basis. The estimated pay-as-you-go expense and payment amount for the 2007/2008 fiscal year is $155,000 (net of required retiree contributions). This amount includes $32,000 for the rate subsidy. Under GASB 45, the District will be required to adopt accrual accounting for the expensing of its retiree health benefits. The expense is generally accrued over the working career of employees. If the District were to adopt accrual accounting under GASB 45 for its current fiscal year, its expense would increase to $488,000. This number is for illustration only and is not yet required on the District's income or other financial statements. The $488,000 is comprised of the present value of benefits accruing in the current year (normal cost) plus a 30-year amortization (on a level-dollar basis) of the projected unfunded actuarial accrued liability (past service liability) at July 1, 2007. Thus, it represents a means to expense the plan's liabilities in an orderly manner. The net OPEB obligation at the end of the fiscal year will reflect any actual retiree health payments made during the period.



The expense amount is highly sensitive to the assumptions used in the valuation. Section VII of the report details the actuarial assumptions used in the valuation. A 1% increase in the healthcare trend rates used to determine the expense could increase the expense amount by 5%. Additionally, a 1% decrease in the discount (interest) rate could increase the expense amount by as much as 13%.

Many school districts in California have begun to assess pre-funding options for their retiree health benefit obligations. Section IV of the report provides several funding alternatives for the District.

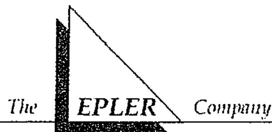


Section II. Financial Results

A. Valuation Results as of January 1, 2007

The table below presents the employer liabilities associated with the District's retiree health benefits determined in accordance with GASB 43 & 45. The actuarial liability is the present value of all benefits projected to be paid under the program. The actuarial accrued liability reflects the amount attributable to the past service of current employees and retirees. The normal cost reflects the accrual attributable for the current period.

	Certificated Employees	Classified Employees	District Total
1. Present Value of Projected Benefits (PVPB)			
Actives	$5,946,816	$1,036,187	$6,983,003
Retirees	362,471	38,735	401,206
Total PVPB	$6,309,287	$1,074,922	$7,384,209
Attributable to Rate Subsidy	$1,448,516	$ 278,030	$1,726,546
2. Actuarial Accrued Liability (AAL)			
Actives	$1,917,517	$ 222,962	$2,140,479
Retirees	362,471	38,735	401,206
Total AAL	$2,279,988	$ 261,697	$2,541,685
Attributable to Rate Subsidy	$ 518,380	$ 63,782	$ 582,162
3. Normal Cost	$ 256,469	$ 56,573	$ 313,042
Attributable to Rate Subsidy	$ 59,115	$ 14,785	$ 73,900
No. of Active Employees	272	76	348
Average Age/Average Past Service	39.6/6.2	45.0/3.9	40.8/5.7
No. of Retired Employees	14	2	16
Average Age (Under 65 Retirees)	62.0	62.7	62.1



B. Development of Unfunded Actuarial Accrued Liability

The table below presents the development of the unfunded actuarial accrued liability. The unfunded actuarial accrued liability (UAAL) is the excess of the actuarial accrued liability (AAL) over the actuarial value of eligible plan assets[1]. Eligible assets under GASB 45 must be segregated and secured for the exclusive purpose of paying for the retiree health benefits.

	Adoption Year	
Projected to July 1 of Fiscal Year	Fiscal Year 2007/2008	Fiscal Year 2008/2009
1. Actuarial Accrued Liability (AAL)	$2,692,932	$3,005,580
2. Actuarial Value of Assets[1]	0	0
3. Unfunded AAL (UAAL)	$2,692,932	$3,005,580
Attributable to Rate Subsidy	$ 657,652	$ 731,799

C. Amortization of Unfunded Actuarial Accrued Liability

The amortization of the UAAL component of the annual contribution (ARC) is being amortized over the maximum acceptable amortization period of 30 years on a level dollar basis.

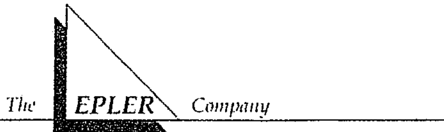
Projected to July 1 of Fiscal Year	Fiscal Year 2007/2008	Fiscal Year 2008/2009
1. Unfunded AAL (UAAL)	$2,692,932	$3,005,580
2. Amortization Period	30	30
3. Amortization of UAAL	$166,837	$186,207

D. Annual Required Contribution (ARC)

The table below presents an estimate of the annual required contribution under GASB 45 if the District adopts accrual accounting for its 2007/2008 or 2008/2009 fiscal year.

	Fiscal Year 2007/2008	Fiscal Year 2008/2009
1. Normal Cost at July 1 of Fiscal Year	$320,868	$336,911
2. Amortization of UAAL at July 1 of Fiscal Year	166,837	186,207
3. Annual Required Contribution	$487,705	$523,118
Attributable to Rate Subsidy	$116,492	$124,873

[1] The District has not reported any eligible plan assets under GASB 43 & 45.



E. Sensitivity Analysis:

1. The impact of a 1% decrease in the discount (interest) rate on the District's total actuarial accrued liability, unfunded actuarial accrued liability and the annual required contribution is provided below:

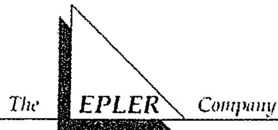
	Percentage (%) Increase
- Actuarial Accrued Liability	15%
- Unfunded Actuarial Accrued Liability	15%
- Annual Required Contribution (Expense)	13%

2. The impact of a 1% increase in the discount (interest) rate on the District's total actuarial accrued liability, unfunded actuarial accrued liability and the annual required contribution is provided below:

	Percentage (%) Decrease
- Actuarial Accrued Liability	(12%)
- Unfunded Actuarial Accrued Liability	(12%)
- Annual Required Contribution (Expense)	(13%)

3. The impact of a 1% increase in the healthcare trend rates on the District's total actuarial accrued liability, unfunded actuarial accrued liability and the annual required contribution is provided below:

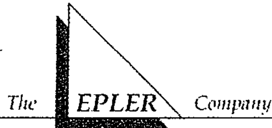
	Percentage (%) Increase
- Actuarial Accrued Liability	6%
- Unfunded Actuarial Accrued Liability	6%
- Annual Required Contribution (Expense)	5%



F. Calculation of Accrual for Retiree Health Cost

The District may be eligible to charge some portion of the accrual for retiree health benefit costs for active employees under specific categorical programs subject to certain restrictions. Estimates of the retiree health benefit accrual with and without an accrual for past service costs is provided below:

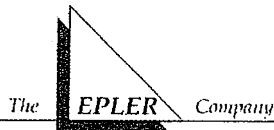
1. Number of Active Employees	348
2. Estimated Annual Payroll	$20.6 million
3. Retiree Health Benefit Accrual without Past Service Component	
- Accrual Per Employee Per Year	$750
- Accrual as % of Annual Payroll	1.6%
4. Retiree Health Benefit Accrual with Active Past Service Component	
- Accrual Per Employee Per Year	$1,100
- Accrual as % of Annual Payroll	2.3%
5. Retiree Health Benefit Accrual with Active & Retiree Past Service Component	
- Accrual Per Employee Per Year	$1,150
- Accrual as % of Annual Payroll	2.4%



Section III. Projected Cash Flows

The valuation process includes the projection of the expected benefits to be paid under the Plan. This expected cash flow takes into account the likelihood of each employee reaching age for eligibility to retire and receive health benefits. The projection is performed by applying the turnover assumption to each active employee for the period between the valuation date and early retirement date. Once the employees reach the earliest retirement date, a certain percent are assumed to enter the retiree group each year. All remaining employees are assumed to have retired by age 65 at the latest. Employees already over age 65 as of the valuation date are assumed to retire immediately. The per capita cost as of the valuation date is projected to increase at the applicable healthcare trend rates both before and after the employee's assumed retirement. The projected per capita costs are multiplied by the number of expected future retirees in a given future year to arrive at the cash flow for that year. Also, a certain number of retirees will leave the group each year due to expected deaths and this group will cease to be included in the cash flow from that point forward. Because this is a closed-group valuation, the number of retirees dying each year will eventually exceed the number of new retirees, and the size of the cash flow will begin to decrease and eventually go to zero.

The expected employer cash flows for selected future years are provided in the following table:



Projected Employer Cash Flows – Representative Years

Fiscal Year	Future Retirees	Retired Employees	Total	Subsidy	District Total
2007/08	$18,756	$104,085	$122,841	$32,193	$155,034
2008/09	$39,064	$88,947	$128,011	$34,571	$162,582
2009/10	$61,833	$56,675	$118,508	$33,085	$151,593
2010/11	$87,073	$27,493	$114,566	$33,929	$148,495
2011/12	$117,937	$12,417	$130,354	$38,598	$168,952
2012/13	$140,034	$4,843	$144,877	$42,657	$187,534
2013/14	$144,501	$0	$144,501	$43,674	$188,175
2014/15	$142,288	$0	$142,288	$43,548	$185,836
2015/16	$141,873	$0	$141,873	$43,913	$185,786
2016/17	$152,516	$0	$152,516	$47,454	$199,970
2017/18	$167,002	$0	$167,002	$52,197	$219,199
2018/19	$187,343	$0	$187,343	$58,801	$246,144
2019/20	$232,937	$0	$232,937	$73,683	$306,620
2020/21	$276,971	$0	$276,971	$87,948	$364,919
2021/22	$315,018	$0	$315,018	$99,946	$414,964
2022/23	$360,637	$0	$360,637	$113,494	$474,131
2023/24	$379,666	$0	$379,666	$118,890	$498,556
2024/25	$409,104	$0	$409,104	$127,544	$536,648
2025/26	$472,751	$0	$472,751	$146,480	$619,231
2026/27	$539,673	$0	$539,673	$165,696	$705,369
2027/28	$595,512	$0	$595,512	$181,742	$777,254
2028/29	$630,816	$0	$630,816	$192,898	$823,714
2029/30	$637,423	$0	$637,423	$195,307	$832,730
2030/31	$685,595	$0	$685,595	$209,134	$894,729
2031/32	$756,205	$0	$756,205	$229,407	$985,612
2032/33	$775,966	$0	$775,966	$235,398	$1,011,364
2033/34	$837,212	$0	$837,212	$254,136	$1,091,348
2034/35	$896,583	$0	$896,583	$272,094	$1,168,677
2035/36	$905,844	$0	$905,844	$275,083	$1,180,927
2036/37	$911,107	$0	$911,107	$277,005	$1,188,112
2037/38	$872,157	$0	$872,157	$265,503	$1,137,660
2038/39	$812,366	$0	$812,366	$248,102	$1,060,468
2039/40	$742,138	$0	$742,138	$227,949	$970,087
2040/41	$651,384	$0	$651,384	$201,471	$852,855
2045/46	$108,762	$0	$108,762	$38,742	$147,504
205051	$0	$0	$0	$446	$446
2055/56	$0	$0	$0	$0	$0
2060/61	$0	$0	$0	$0	$0
2065/66	$0	$0	$0	$0	$0
All Years	$16,637,278	$294,460	$16,931,738	$5,212,407	$22,144,145

Section IV. Funding Analysis

There are multiple ways to approach the funding of a retiree health plan. The expense is one method, of many, that could be used to pre-fund benefits. The annual expense amount will fluctuate from year to year based on the asset performance and as the population matures.

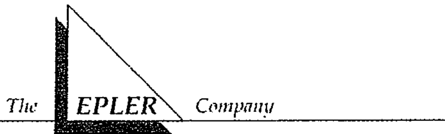
Although not required, many school districts in California have begun to pre-fund for their retiree benefit obligations. Presented below are our best estimate to pre-fund the entire District obligation (the present value of projected benefits) for its current active employees and retirees using both level-dollar and level-percentage of pay methods.

	Level Dollar Equivalent		Level Percentage of Pay*	
	20 Years	30 Years	20 Years	30 Years
Fund Present Value of Projected Benefits ($7.4 million) at January 1, 2007:	$565,000	$460,000	2.1%	1.5%
Fund Present Value of Projected Benefits Less Rate Subsidy ($5.7 million) at January 1, 2007:	$430,000	$350,000	1.6%	1.2%

*Eligibles only

We have listed below some financial advantages that may be achieved pre-funding retiree health benefits. Of course, pre-funding will have to be weighed against alternative uses of the contribution amounts.

- The earlier contributions are made, the less District contributions in aggregate will have to be made to fulfill its obligations.
- Depending on the investment strategy for funds, a higher discount rate may be used for the actuarial valuation resulting in lower OPEB liabilities.
- Pre-funding can mitigate any resulting adverse impact on credit rating that could result from disclosure of OPEB liabilities.
- Pre-funding may provide additional benefit security to current and future retirees.



Section V. Benefit Plan Provisions

This study analyzes the postretirement health benefit plans provided by the District. In general, the postretirement health plans and the District's obligation do not vary by employee groups.

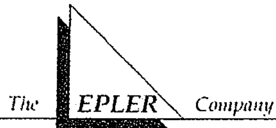
The District provides retiree medical (including prescription drug benefits), dental, and vision benefits to eligible retirees and their eligible dependents until the retiree turns age 65. The District's financial obligation is to provide these benefits at the same cost as active employees. The District's contribution is subject to an annual maximum ($8,048). The annual maximum is subject to periodic changes. Hourly and part-time employees are not eligible for retiree health benefits.

Eligibility for retiree health coverage requires retirement from PERS or STRS on or after age 55 with age plus District years of service greater than or equal to 75. The District does not provide any retiree health benefits after a retiree turns 65. Dependent coverage ceases upon the death of the retiree or when the retiree turns age 65.

Premium Rates

The District participates in the California Public Employers Program (CAPEP) for its medical coverages. The medical plans are partially experienced-rated insured plans. The premium rates may vary by plans selected, coverage tier and Medicare eligibility. The District currently offers a Kaiser HMO Plan, a Blue Cross HMO Plan and two Blue Cross PPO Plans. The District also offers a self-insured Delta Dental Plan and a self-insured VSP Vision Plan through the San Diego FBC.

The premiums billed for retiree medical coverage under age 65 are the same as those for active medical coverage. Thus, the District is providing a "rate subsidy" to the retirees based on this blended rate. GASB 45 requires that when an employer provides benefits to both active employees and retirees through the same plan, the benefits to retirees should be segregated and measured independently. This requires valuing any "rate subsidy" as an additional financial obligation to the District.



The following table summarizes the current monthly funding rates for coverages that apply to active and retired employees. All premiums are monthly and are effective January 1, 2007 through December 31, 2007.

Medical Benefits:

	Kaiser HMO	Blue Cross HMO	Blue Cross PPO (80/60)	Blue Cross PPO (90/70)
Employee Only	$271.10	$321.46	$426.87	$445.23
Employee Plus One	$542.21	$642.93	$853.75	$890.53
Employee Plus Family	$759.09	$900.09	$1,195.25	$1,246.68

Dental & Vision Benefits:

	Delta Dental Plan	VSP Vision Plan
Composite	$92.98	$14.02

Section VI. Valuation Data

Active and Retiree Census

The valuation was based on the census furnished to us by the District. The following tables display the age distribution for retirees and the age/service distribution for active employees as of the Measurement Date.

Age Distribution of Eligible Retired Participants & Beneficiaries

	Count
<55	0
55-59	1
60-64	15
65+	0
Total:	16
Average Age:	62.1

Age/Service Distribution of Active Benefit Eligible Employees

	Service									
Age	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	Total
20-24	6									6
25-29	52	6								58
30-34	52	27								79
35-39	22	17	7							46
40-44	23	11	7	2						43
45-49	20	7	3	2						32
50-54	10	9	5	4		0				28
55-59	9	12	10	5	1	0	1			38
60-64	3	4	1	4	0	0	1	1		14
65-69	0	1	2	1	0	0	0	0	0	4
70+	0	0	0	0	0	0	0	0	0	0
Total:	197	94	35	18	1	0	2	1	0	348
Average Age:			40.8							
Average Service:			5.7							

Note: Excludes hourly and part-time employees.

Section VII. Actuarial Assumptions and Methods

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

Fiscal Year: July 1st to June 30th

Measurement Date: January 1, 2007

Discount Rate: 5.0% per annum

Return on Assets: 5.0% per annum

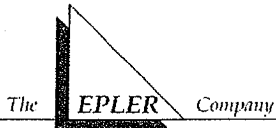
Salary Increases: 3.25% per annum, in aggregate

Pre-retirement Turnover: According to the Crocker-Sarason T-5 turnover table less mortality. Sample rates are as follows:

Age	Males	Females
20	7.9%	7.9%
25	7.7	7.7
30	7.2	7.2
35	6.3	6.3
40	5.2	5.2
45	4.0	4.0
50	2.6	2.6
55	0.9	0.9

Pre-retirement Mortality: 1983 Group Annuity Mortality, male and female tables set back four years to reflect recent mortality improvements. Sample deaths per 1,000 employees are as follows:

Age	Males	Females
25	0.4	0.2
30	0.5	0.3
35	0.6	0.4
40	0.9	0.5
45	1.4	0.7
50	2.5	1.1
55	4.3	1.8
60	6.6	2.8



Post-retirement Mortality: 1983 Group Annuity Mortality, male and female tables set back four years to reflect recent mortality improvements. Sample deaths per 1,000 employees are as follows:

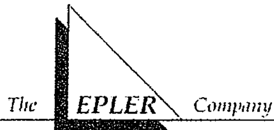
Age	Males	Females
65	10.1	4.7
70	17.6	7.8
75	30.4	14.1
80	49.4	27.2
85	81.5	47.7
90	124.2	76.6

Retirement Rates:

Age	Percent Retiring*
55	25.0%
56	15.0%
57	10.0%
58	10.0%
59	10.0%
60	50.0%
61	35.0%
62	50.0%
63	25.0%
64	25.0%
65	100.0%

* Of those having met eligibility to receive District paid benefits. The percentage refers to the probability that an active employee who has reached the stated age will retire within the following year.

Participation Rates: 95% of active employees meeting eligibility requirements are assumed to elect retiree health coverage at retirement. Of those electing coverage approximately 25% are assumed to elect coverage for their spouse. Spouses are assumed to be the same age as retiree. 80% of future retirees are assumed to elect a PPO plan and 20% an HMO plan.



25% of part-time employees included in the valuation meeting eligibility requirements are assumed to elect continuation of their HMO plan with 100% electing retiree only coverage.

Claim Cost Development: The valuation was based on the premiums furnished by the District. The expected retiree cost for coverage was set to the minimum of the actual premiums billed for coverage. The average annual costs used in the valuation are provided in the following table:

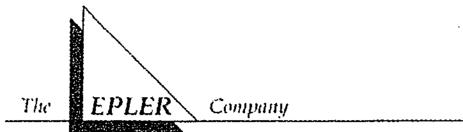
Coverage	Annual Cost
Medical Individual Pre-65 Coverage	$6,465
Dental & Vision Coverage	$1,285

Medical Trend Rates:

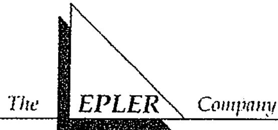
Year	Trend
2007	10.0%
2008	9.5%
2009	9.0%
2010	8.5%
2011	8.0%
2012	7.5%
2013	7.0%
2014	6.5%
2015	6.0%
2016	5.5%
2017+	5.0%

Dental & Vision Trend Rates:

Year	Trend
2007+	5.0%



Annual Maximum:	The annual maximum is assumed to increase at the ultimate increase in healthcare costs.
Actuarial Cost Method:	The actuarial cost method used was Projected Unit Credit with service prorate. Under this method, the Actuarial Accrued Liability is the present value of projected benefits multiplied by the ratio of benefit service as of the valuation date to the projected benefit service at retirement, termination, disability or death. The Normal Cost for a plan year is the expected increase in the Accrued Liability during the plan year. All employees eligible as of the measurement date in accordance with the provisions of the Plan listed in the data provided by the Employer were included in the valuation.
Actuarial Value of Assets:	Any assets of the plan will be valued on a market value basis.



Section VIII. Actuarial Certification

The results set forth in this report are based on the actuarial valuation of the retiree health benefit plans of Del Mar Union School District (the "District"), as of January 1, 2007.

The valuation was performed in accordance with generally accepted actuarial principles and practices and in accordance with GASB Statements No. 43 & 45. We relied on census data for active employees and retirees provided to us by the District. We also made use of plan information, premium information, and enrollment information 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 anticipated experience and actuarial cost of the retiree health benefit plans.

Certified by:

Marilyn K. Jones, ASA, EA, MAAA Date: 5/3/05
Vice President and Actuary