City of Stockton Retiree Healthcare Plan

Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2011 In accordance with GASB Statements No. 43 and No. 45

SEGAL

SEGAL

THE SEGAL COMPANY
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January 30, 2012

Mr. Bob Deis
City of Stockton
425 N. El Dorado Street
Stockton, CA 95202

Dear Mr. Deis:

We are pleased to submit this Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2011 under Governmental Accounting Standards Board Statements 43 and 45. The report summarizes the actuarial data used in the valuation, discloses the Net OPEB obligation (NOO) as of June 30, 2011, establishes the Annual Required Contribution (ARC) for the coming year, and analyzes the preceding year's experience. This report was based on the census data provided by Ms. Teresia Haase and the terms of the Plan. The actuarial calculations were completed under the supervision of Patrick Twomey, ASA, MAAA, EA and Dave Bergerson, FCA, ASA, MAAA, EA.

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

Sincerely,

THE SEGAL COMPANY

By: ______________________
Thomas M. Morrison, Jr.
Senior Vice President

cc: Teresia Haase
Susan Mayer

RPT/hy

SECTION 1

EXECUTIVE SUMMARY

SECTION 2

VALUATION RESULTS

SECTION 3

VALUATION DETAILS

SECTION 4

SUPPORTING INFORMATION

PURPOSE

This report presents the results of our actuarial valuation of The City of Stockton (the "City") OPEB plan as of June 30, 2011. The results are in accordance with the Governmental Accounting Standards, which prescribe an accrual methodology for accumulating the value of other postemployment benefits (OPEB) over participants' active working lifetimes.

HIGHLIGHTS OF THE VALUATION

- The **unfunded actuarial accrued liability (UAAL)** as of June 30, 2011 is $416,737,585, a decrease of $126,964,415, from the prior valuation UAAL of $543,702,000. Net unfunded plan obligations had been expected to increase to $603,094,061, due to normal plan operations. The difference between actual and expected unfunded actuarial accrued liabilities was the net effect of several factors:

    - An **actuarial experience gain** decreased the UAAL by $11,506,314. This was the net result of gains and losses due to demographic changes and actual 2011 contributions and benefit payments that were different from expected.

    - **Valuation assumption changes** decreased the AAL by $19,427,271. This was a net result of updating the valuation-year per capita health costs and future trend on such costs.

    - **Plan changes** decreased the AAL by $155,422,891. This was due to changes in deductibles and starting costs, including such changes as increases in annual deductibles and out-of-pocket maximums. The current plan of benefits is summarized in Exhibit III of Section 4.

- As of June 30, 2011, the ratio of assets to the AAL (the funded ratio) is .00%. We did not recognize any assets in the valuation since there are not any assets held in an irrevocable trust.

- The **Net OPEB Obligation (NOO)** increased to $105,619,791 for the year ending June 30, 2011. The NOO generally increases if the contributions in relation to the ARC are less than the ARC. The contributions in relation to the ARC during the year ending June 30, 2011 were $12,943,613 compared to the ARC of $40,689,363. Contributions in relation to the ARC totaled 29.55% of the ARC in the year ending June 30, 2011. Chart 7 shows the detailed derivation of the NOO as of June 30, 2011.

- The **Annual Required Contribution (ARC)** decreased to $31,436,257 for the year ending June 30, 2012. The ARC was $40,689,363 for the year ending June 30, 2010. As a percentage of payroll, the ARC decreased from 37.79% last year to 30.81% this year.

- The **Annual OPEB Cost (AOC)** decreased to $31,274,994 for the year ending June 30, 2012. The AOC was $44,923,522 last year.

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

SUMMARY OF VALUATION RESULTS

	June 30, 2011	June 30, 2009
Actuarial Accrued Liability (AAL)	$416,737,585	$543,702,000
Actuarial Value of Assets	0	0
Unfunded Actuarial Accrued Liability	416,737,585	543,702,000
Funded Ratio	0.00%	0.00%
Market Value of Assets	$0	$0
Annual Required Contribution (ARC) for Fiscal Year Ending:	**June 30, 2012**	**June 30, 2010**
Normal cost (beginning of year)	$12,197,428	$17,068,000
Amortization of the unfunded actuarial accrued liability	18,554,524	22,735,636
Adjustment for timing	684,305	885,727
Total Annual Required Contribution, including adjustment for timing	$31,436,257	$40,689,363
Covered payroll	$102,040,120	$107,678,676
ARC as a percentage of pay	30.81%	37.79%
Total Participants	2,314	2,343
Annual OPEB Cost (AOC) for Fiscal Year Ending:	**June 30, 2012**	**June 30, 2010**
Annual Required Contributions	$31,436,257	$40,689,363
Interest on Net OPEB Obligations	4,752,891	2,148,418
ARC Adjustments	-4,914,154	2,085,741
Total Annual OPEB Cost	$31,274,994	$44,923,522
AOC as a percent of pay	30.65%	41.72%

Note: Numbers for plan year ending June 30, 2010, calculated by prior actuary.

January 30, 2012

ACTUARIAL CERTIFICATION

This is to certify that The Segal Company has conducted an actuarial valuation of certain benefit obligations of City of Stockton Retiree Healthcare Plan's other postemployment benefit programs as of June 30, 2011, in accordance with generally accepted actuarial principles and practices. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of GASB Statements 43 and 45 for the determination of the liability for postemployment benefits other than pensions.

The actuarial valuation is based on the plan of benefits verified by the Employer and reliance on participant, premium, claims and expense data provided by the Employer or from vendors employed by the Employer. The Segal Company does not audit the data provided. The accuracy and comprehensiveness of the data is the responsibility of those supplying the data. Segal, however, does review the data for reasonableness and consistency.

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

To the best of our knowledge, this report is complete and accurate and in our opinion presents the information necessary to comply with GASB Statements 43 and 45 with respect to the benefit obligations addressed. The signing actuaries are members of the Society of Actuaries, the American Academy of Actuaries, and other professional actuarial organizations and collectively meet their "General Qualification Standards for Statements of Actuarial Opinions" to render the actuarial opinion contained herein.

Patrick Twomey

Patrick Twomey, ASA, MAAA, EA
Assistant Actuary

Dave Bergerson

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

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

CHART 1

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

	Actuarial Present Value of Total Projected Benefits (APB)	
	2011	**2009**
Participant Category		
Current retirees, beneficiaries, and dependents	$261,863,360	$365,234,000
Current active members	282,183,048	366,044,000
Terminated members entitled but not yet eligible	0	0
Total as of June 30	$544,046,408	$731,278,000

		2011	2009
Actuarial Balance Sheet			
The actuarial balance sheet as of the valuation date is as follows:			
	Assets		
1.	Actuarial value of assets	$0	$0
2.	Present value of future normal costs	127,308,823	187,576,000
3.	Unfunded actuarial accrued liability	416,737,585	543,702,000
4.	Present value of current and future assets	$544,046,408	$731,278,000
	Liabilities		
5.	Actuarial Present Value of total Projected Benefits	$544,046,408	$731,278,000

Note: Numbers for plan year ending June 30, 2010, calculated by prior actuary.

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

CHART 2

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

	June 30, 2011	July 1, 2009
Participant Category		
Current retirees, beneficiaries, and dependents	$261,863,360	$365,234,000
Current active members	154,874,225	178,468,000
Terminated members entitled but not yet eligible	0	0
Total	$416,737,585	$543,702,000
Effect of Retiree Contributions		
Actuarial accrued liability before reduction for retiree contributions	$443,794,844	$598,107,000
Less projected retiree contributions	27,057,259	54,405,000
Net employer actuarial accrued liability	416,737,585	543,702,000
Actuarial value of assets	0	0
Unfunded actuarial accrued liability	$416,737,585	$543,702,000

Development of Unfunded Actuarial Accrued Liability	
1. Unfunded actuarial accrued liability as of July 1, 2009	$543,702,000
2. Normal cost as of June 30, 2009 for 2009.2010	17,068,000
3. Interest on UAAL and normal cost for the twelve-month period ended June 30, 2010	25,234,650
4. Employer contributions from July 1, 2009 through June 30, 2010 with interest to the end of the year	13,842,000
5. Expected UAAL as of June 30, 2010 (1+2+3-4)	$572,162,650
6. Normal cost as of June 30, 2010 for 2010/2011	17,622,710
7. Interest on UAAL and normal cost for the twelve-month period ended June 30, 2011	26,540,341
8. Employer contributions from July 1, 2010 through June 30, 2011 (cash contributions plus implicit subsidy)	12,943,613
9. Interest on contributions, payable throughout the twelve-month period ended June 30, 2011	288,027
10. Expected UAAL as of June 30, 2011 (5+6+7-8-9)	$603,094,061
11. Effect of actuarial experience gain	-11,506,314
12. Assumption changes	-19,427,271
13. Effect of Plan changes	-155,422,891
14. Unfunded actuarial accrued liability as of June 30, 2011 (10+11+12+13)	$416,737,585

Note: Numbers through line 7 calculated by prior actuary.

The unfunded actuarial accrued liability may be amortized over periods of up to 30 years. Amortization payments may be calculated as level dollar amounts or as amounts designed to remain level as a percent of a growing payroll base. City of Stockton Retiree Healthcare Plan has elected to amortize unfunded actuarial accrued liability using the following rules:

- 30-year closed period (i.e. decreasing) and
- Level percent of payroll amortization.

It is assumed that payroll will grow at the annual rate of 3.25% during the amortization period. The unfunded actuarial liability is being amortized over 26 years from June 30, 2011.

CHART 3

Table of Amortization Bases

Type	Date Established	Initial Year	Initial Amount	Annual Payment*	Years Remaining	Outstanding Balance
Total AAL	7/1/2011	26	$416,737,585	$18,554,524	26	$416,737,585

* *Level percentage of pay.*

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

The amortization payment is based on a 26-year amortization of the Unfunded Actuarial Accrued Liability on a level percent of payroll basis.

CHART 4

Determination of Annual Required Contribution (ARC) – Payable Throughout Fiscal Year

	Cost Element	Fiscal Year Beginning July 1, 2011 and Ending June 30, 2012		Fiscal Year Beginning July 1, 2009 and Ending June 30, 2010	
		Amount	**Percentage of Compensation**	**Amount**	**Percentage of Compensation**
1.	Normal cost	$12,197,428	11.95%	$17,068,000	15.85%
2.	Amortization of the unfunded actuarial accrued liability (26 years)	18,554,524	18.18%	22,735,636	21.12%
3.	Adjustment for timing	684,305	0.68%	885,727	0.82%
4.	Total Annual Required Contribution (ARC)	$31,436,257	30.81%	$40,689,363	37.79%
5.	Total Compensation	$102,040,120		$107,678,676	

Note: Numbers for plan year ending June 30, 2010, calculated by prior actuary.

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

CHART 4 (continued)

Determination of Annual OPEB Cost (AOC) – Payable Throughout Fiscal Year

	Cost Element	Fiscal Year Beginning July 1, 2011 and Ending June 30, 2012		Fiscal Year Beginning July 1, 2009 and Ending June 30, 2010	
		Amount	**Percentage of Compensation**	**Amount**	**Percentage of Compensation**
1.	Annual Require Contribution	$31,436,257	30.81%	$40,689,363	37.79%
2.	Interest on Beginning of Year Net OPEB Obligation (NOO)	4,752,891	4.66%	2,148,418	2.00%
3.	ARC adjustment	-4,914,154	-4.82%	2,085,741	1.94%
4.	Annual OPEB Cost	$31,274,994	30.65%	$44,923,522	41.72%

Note: Numbers for plan year ending June 30, 2010, calculated by prior actuary.

For GASB 43 (plan reporting) purposes, the schedule of employer contributions compares actual contributions to the ARC. For GASB 45 (employer reporting) purposes, the schedule of employer contributions compares actual contributions to the AOC.

CHART 5

Required Supplementary Information – Schedule of Employer Contributions

GASB 43

Fiscal Year Ended June 30	Annual Required Contributions	Actual Contributions	Percentage Contributed
2010	$40,827,000	$13,842,000	33.90%
2011	43,808,000	12,943,613	29.55%
2012	31,436,257	Not made yet	N/A

** Includes an interest adjustment to the end of the year.*

Required Supplementary Information – Schedule of Employer Contributions

GASB 45

Fiscal Year Ended June 30	Annual OPEB Cost	Actual Contributions	Percentage Contributed
2010	$40,891,000	13,842,000	30.14%
2011	42,977,000	12,943,613	30.12%
2012	31,274,994	Not made yet	N/A

Note: Numbers for plan year ending June 30, 2010 and June 30, 2011, calculated by prior actuary.

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

CHART 6

Required Supplementary Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
6/30/2009	$0	$543,702,000	$543,702,000	0.00%	$107,679,000	504.93%
6/30/2011	0	416,737,585	416,737,585	0.00%	102,040,120	408.41%

Note: *Numbers for plan year ending June 30, 2010, calculated by prior actuary.*

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

CHART 7

Required Supplementary Information – Net OPEB Obligation (NOO)

Actuarial Valuation Date	Fiscal Year End	Annual Required Contribution * (a)	Interest on Existing NOO (b)	ARC Adjustment * (c)	Annual OPEB Cost (a) + (b) + (c) (d)	Actual Contribution Amount * (e)	Net Increase in NOO (d) - (e) (f)	NOO as of Fiscal Year (g)
6/30/2009	6/30/2010	$40,827,000	$2,196,000	$2,132,000	$40,891,000	$13,842,000	$27,049,000	$75,854,000
6/30/2009	6/30/2011	43,808,000	3,413,430	-4,244,000	42,997,430	13,231,639	29,765,791	105,619,791
6/30/2011	6/30/2012	32,135,790	4,752,891	-4,914,154	31,974,527	Not made yet	N/A	N/A

** Includes an interest adjustment to the end of the year.*

Note: Numbers for plan year ending June 30, 2010 and annual OPEB cost for plan year ending June 30, 2011, calculated by prior actuary.

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

EXHIBIT A

Summary of Participant Data

	June 30, 2011	June 30, 2009
Retirees		
Number of retirees	960	971
Average age of retirees	62.5	55.5
Number of spouses	753	698
Average age of spouses	60.0	N/A
Surviving Spouses		
Number	42	N/A
Average age	70.1	
Active Participants		
Number	1,312	1,372
Average age	44.5	43.9
Average years of service	12.3	11.8
Average expected retirement age	58.8	N/A

EXHIBIT B

Cash Flow Projections

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

Year Ending June 30	Projected Number of Retirees*			Projected Benefit Payments			Projected Retiree Contributions	Projected Net Fund Payment**	Contribution Ratio
	Current	Future	Total	Current	Future	Total			
2012	1,753	47	1,800	$11,858,835	$315,255	$12,174,090	$208,723	$11,965,367	1.74%
2013	1,730	103	1,833	11,795,339	704,906	12,500,245	278,074	12,222,171	2.28%
2014	1,708	167	1,875	12,429,724	1,227,591	13,657,315	373,897	13,283,418	2.81%
2015	1,685	234	1,919	13,048,674	1,838,613	14,887,287	437,850	14,449,437	3.03%
2016	1,661	308	1,969	13,581,346	2,571,206	16,152,552	481,373	15,671,179	3.07%
2017	1,634	384	2,018	14,133,733	3,386,088	17,519,821	657,396	16,862,425	3.90%
2018	1,610	467	2,077	14,426,564	4,333,254	18,759,818	743,708	18,016,110	4.13%
2019	1,574	550	2,124	14,765,291	5,268,345	20,033,636	926,586	19,107,050	4.85%
2020	1,542	633	2,175	15,212,399	6,361,216	21,573,615	1,143,069	20,430,546	5.59%
2021	1,510	717	2,227	15,521,171	7,548,868	23,070,039	1,336,468	21,733,571	6.15%

* *Includes spouses of retirees.*

** *Total projected benefit payments less projected retiree contribution. Projected benefit payments do not include any margin, city administrative expense or credit for Medicare Part D subsidy.*

EXHIBIT I

Summary of Required Supplementary Information

Valuation date	June 30, 2011	
Actuarial cost method	Entry Age Normal	
Amortization method	30-Year Amortization Closed, level percent of pay	
Remaining amortization period	26 years as of June 30, 2011	
Asset valuation method	N/A	
Actuarial assumptions:		
Investment rate of return	4.50%	
Inflation rate	3.00%	
Projected salary increases	3.25%	
Medical cost trend rate	9.00% per annum grading down to 5.00% over 8 years	
Drug cost trend rate	8.00% per annum grading down to 5.00% over 6 years	
Plan membership:	June 30, 2011	June 30, 2009
Current retirees, beneficiaries, and dependents	1,755	1,669
Current active participants	1,312	1,372
Terminated participants entitled but not yet eligible	0	0
Total	3,067	3,041

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method

Data: Detailed census data, premium data and/or claim experience, and summary plan descriptions for OPEB were provided by the City of Stockton.

Actuarial Cost Method: Entry Age Normal, level percent of salary.

Asset Valuation Method: N/A – No assets held in Trust.

Measurement Date: June 30, 2011

Census Date: June 30, 2011

Future Service Accrual: Future service increment per year is 1.00.

Discount Rate: 4.50%

Salary Increases:

Service	Miscellaneous	Safety
0	12.65%	11.15%
3	8.26%	7.25%
5	6.71%	5.76%
10	4.89%	4.43%
15	4.38%	4.13%
20	4.00%	3.84%
25	3.78%	3.66%
30	3.78%	3.66%

Termination Rates before and after Retirement:

Turnover for Miscellaneous Employees

Service	With Refund	With Vested Benefit	Total
0	16.06%	0.00%	16.06%
1	14.09%	0.00%	14.09%
2	12.12%	0.00%	12.12%
3	10.15%	0.00%	10.15%
4	8.18%	0.00%	8.18%
5	1.74%	5.37%	7.11%
6	1.59%	5.11%	6.70%
7	1.45%	4.86%	6.31%
8	1.31%	4.60%	5.91%
9	1.17%	4.31%	5.48%
10	1.04%	4.03%	5.07%
15	0.42%	3.05%	3.47%
20	0.21%	0.38%	0.59%
25	0.05%	0.18%	0.23%
30	0.01%	0.01%	0.02%
35	0.01%	0.01%	0.02%

Turnover for Safety Employees

Service	With Refund	With Vested Benefit	Total
0	10.13%	0.00%	10.13%
1	6.36%	0.00%	6.36%
2	2.71%	0.00%	2.71%
3	2.58%	0.00%	2.58%
4	2.45%	0.00%	2.45%
5	0.86%	1.63%	2.49%
6	0.79%	1.57%	2.36%
7	0.72%	1.49%	2.21%
8	0.66%	1.42%	2.08%
9	0.59%	1.34%	1.93%
10	0.53%	1.26%	1.79%
15	0.27%	0.82%	1.09%
20	0.17%	0.65%	0.82%
25	0.12%	0.58%	0.70%
30	0.09%	0.56%	0.65%
35	0.09%	0.00%	0.09%

Rates of Disability Incidence

Attained Age	Miscellaneous	Safety
20	0.010%	0.069%
30	0.021%	0.644%
40	0.145%	1.288%
50	0.331%	1.921%
60	0.377%	6.682%
70	0.000%	0.000%

Pre- And Post-Retirement Mortality
Applied to Healthy and Disabled Lives

Age	Male	Female
20	0.04%	0.03%
25	0.06%	0.03%
30	0.07%	0.03%
35	0.08%	0.04%
40	0.09%	0.06%
45	0.13%	0.09%
50	0.24%	0.13%
55	0.47%	0.24%
60	0.72%	0.43%
65	1.07%	0.78%
70	1.68%	1.24%
75	3.08%	2.07%
80	5.27%	3.75%
85	9.78%	7.01%
90	16.75%	12.40%
95	25.66%	21.56%
100	34.55%	31.88%
105	58.53%	56.09%
110	100.00%	100.00%

The CalPERS post-retirement mortality table from the 1997-2007 Experience Study was determined to contain provisions appropriate to reasonably reflect future mortality improvement, based on a review of mortality experience as of the measurement date.

Retirement Rates:

Retirement Rates for Miscellaneous Employees

(CalPERS Miscellaneous Tier 1 2% @55)

	Years of Service						
Attained Age	5-9	10-14	15-19	20-24	25-29	30-34	35+
50	0.4%	1.1%	1.6%	1.9%	2.3%	2.7%	3.2%
51	0.4%	1.1%	1.5%	1.9%	2.3%	2.7%	3.1%
52	0.4%	1.2%	1.6%	2.0%	2.5%	2.9%	3.3%
53	0.6%	1.5%	2.1%	2.6%	3.2%	3.7%	4.3%
54	0.8%	2.2%	3.0%	3.7%	4.6%	5.4%	6.2%
55	1.8%	4.8%	6.7%	8.2%	10.1%	11.8%	13.6%
56	1.4%	3.8%	5.4%	6.6%	8.1%	9.5%	10.9%
57	1.8%	4.8%	6.8%	8.4%	10.2%	12.0%	13.8%
58	1.9%	5.0%	7.1%	8.7%	10.6%	12.4%	14.4%
59	2.2%	5.9%	8.2%	10.1%	12.4%	14.5%	16.8%
60	2.6%	7.0%	9.8%	12.1%	14.8%	17.3%	20.0%
61	3.2%	8.7%	12.2%	15.0%	18.4%	21.5%	24.8%
62	4.7%	12.5%	17.6%	21.7%	26.6%	31.1%	35.9%
63	5.6%	15.0%	21.1%	25.9%	31.8%	37.1%	42.9%
64	4.6%	12.4%	17.4%	21.4%	26.2%	30.7%	35.4%
65	5.4%	14.5%	20.4%	25.0%	30.7%	35.9%	41.5%
66	4.2%	11.4%	16.1%	19.7%	24.2%	28.3%	32.7%
67	4.4%	11.7%	16.5%	20.3%	24.9%	29.0%	33.6%
68	4.3%	11.6%	16.3%	20.0%	24.5%	28.6%	33.1%
69	4.9%	13.1%	18.5%	22.7%	27.9%	32.6%	37.6%
70	5.0%	13.4%	18.8%	23.1%	28.4%	33.1%	38.3%
71	3.9%	10.4%	14.7%	18.0%	22.2%	25.9%	29.9%
72	3.4%	9.2%	13.0%	16.0%	19.6%	22.9%	26.4%
73	2.9%	7.7%	10.8%	13.3%	16.4%	19.1%	22.1%
74	2.0%	5.3%	7.4%	9.2%	11.2%	13.1%	15.2%
75	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Retirement Rates (Continued):

Safety Employees
(CalPERS Public Agency Police 3% @50)

Years of Service

Attained Age	5-9	10-14	15-19	20-24	25-29	30-34	35+
50	7.0%	7.0%	7.0%	13.1%	19.3%	24.9%	30.6%
51	5.0%	5.0%	5.0%	9.5%	13.9%	18.0%	22.0%
52	6.1%	6.1%	6.1%	11.6%	17.1%	22.0%	27.0%
53	6.9%	6.9%	6.9%	13.0%	19.2%	24.7%	30.3%
54	7.1%	7.1%	7.1%	13.4%	19.7%	25.5%	31.2%
55	9.0%	9.0%	9.0%	17.0%	25.0%	32.2%	39.5%
56	6.9%	6.9%	6.9%	13.0%	19.1%	24.7%	30.2%
57	8.0%	8.0%	8.0%	15.2%	22.3%	28.8%	35.3%
58	8.7%	8.7%	8.7%	16.4%	24.2%	31.2%	38.2%
59	9.0%	9.0%	9.0%	17.0%	25.1%	32.3%	39.6%
60	13.5%	13.5%	13.5%	25.5%	37.7%	48.5%	59.4%
61	9.0%	9.0%	9.0%	17.0%	25.1%	32.3%	39.6%
62	11.3%	11.3%	11.3%	21.3%	31.4%	40.4%	49.5%
63	9.0%	9.0%	9.0%	17.0%	25.1%	32.3%	39.6%
64	9.0%	9.0%	9.0%	17.0%	25.1%	32.3%	39.6%
65	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Missing Participant Data: A missing census item for a given participant was assumed to equal the average value of that item over all other participants of the same status for whom the item is known.

Participation and Coverage Election: 100% of employees eligible to retire and receive subsidized postretirement welfare coverage were assumed to elect medical coverage.

Dependents: Demographic data was available for spouses of current retirees. For future retirees, male retirees were assumed to be three years older than their wives and female retirees were assumed to be three years younger than their husbands. For future retirees who elect to continue their health coverage at retirement 80% of males and 50% of females were assumed to have an eligible spouse who also opts for health coverage at that time.

Per Capita Cost Development:

PPO Medical and Drug Plan

Per capita claims costs were based on actual retiree paid claim experience for the period July 1, 2008 through June 30, 2011. Claims were separated by plan year, then adjusted as follows:

- actual large claims were replaced by the *expected* amount of large claims to smooth out random fluctuations in experience,
- paid claims were multiplied by a factor to yield an estimate of incurred claims,
- total claims were divided by the number of adult members to yield a per capita claim,
- the per capita claim was trended to the midpoint of the valuation year at assumed trend rates, and
- the per capita claim was adjusted for the effect of any plan changes.

Dental

The dental per capita costs were based on active and retired combined experience for the period July 1, 2008 through June 30, 2011. Expenses were separated by plan year, then adjusted as described above to yield per capita costs. Per capita costs for each plan year were then combined by taking a weighted average.

Administrative Expenses

Administrative expenses were based on experience for the period July 1, 2008 through June 30, 2011. Expenses were separated by plan year, then adjusted as described above to yield per capita expenses. Per capita expenses for each plan year were then combined by taking a weighted average.

Per Capita Health Costs:

Annual dental per capita costs for 2011/2012 were assumed to be $659. Medical and prescription drug claims costs for 2011/2012, excluding assumed expenses, are shown in the table below for retirees and for spouses at selected ages. These costs are net of deductibles and other benefit plan cost sharing provisions.

Original Plan (Closed to new employees)

	Medical				Prescription Drug			
	Retiree		Spouse		Retiree		Spouse	
Age	Male	Female	Male	Female	Male	Female	Male	Female
50	$6,400	$7,290	$4,470	$5,853	$2,052	$2,338	$1,434	$1,877
55	7,600	7,847	5,982	6,775	2,437	2,516	1,918	2,173
60	9,026	8,458	8,008	7,858	2,895	2,712	2,568	2,520
64	10,356	8,973	10,109	8,844	3,321	2,877	3,242	2,836
65	3,487	2,964	3,487	2,964	3,438	2,922	3,438	2,922
70	4,042	3,194	4,042	3,194	3,984	3,149	3,984	3,149
75	4,356	3,438	4,356	3,438	4,294	3,390	4,294	3,390

Modified Plan

	Medical				Prescription Drug			
	Retiree		Spouse		Retiree		Spouse	
Age	Male	Female	Male	Female	Male	Female	Male	Female
50	$5,235	$5,963	$3,657	$4,788	$1,389	$1,582	$970	$1,270
55	6,217	6,419	4,893	5,542	1,650	1,703	1,298	1,470
60	7,383	6,919	6,550	6,428	1,959	1,836	1,738	1,705
64	8,471	7,340	8,269	7,234	2,248	1,947	2,194	1,920
65	2,782	2,364	2,782	2,364	2,327	1,978	2,327	1,978
70	3,224	2,548	3,224	2,548	2,697	2,131	2,697	2,131
75	3,474	2,743	3,474	2,743	2,906	2,294	2,906	2,294

Health Care Cost Trend Rates: Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years. The rates shown below are "net" and are applied to the net per capita costs shown above. The trend shown for a particular plan year is the rate that is applied to that year's cost to yield the next year's projected cost. For example, the projected monthly male age 60 cost for 2012-2013 would be [(1+2.73%) X $615.29] = $632.09.

Fiscal Year	Medical (Premium and Subsidy)	Prescription Drug	Medicare Part B Premium Dental and Administrative Expenses
2011-2012	2.73%*	-1.77%*	5.00%
2012-2013	8.50%	7.50%	5.00%
2013-2014	8.00%	7.00%	5.00%
2014-2015	7.50%	6.50%	5.00%
2015-2016	7.00%	6.00%	5.00%
2016-2017	6.50%	5.50%	5.00%
2017-2018	6.00%	5.00%	5.00%
2018-2019	5.50%	5.00%	5.00%
2019 and Later	5.00%	5.00%	5.00%

* *Trend rate reflects plan design changes occurring January 2012 that lowered costs for the modified Plan. Without the plan changes, the trend rate would have been 9.00% for the medical plan and 8.00% for the prescription drug plan.*

Trend per Retiree Self-Pay Rates:	Same as medical plans.
Medicare Part D Subsidy Assumption:	GASB guidelines prohibit the offset of OPEB obligations by the future value of Medicare Part D subsidies. Therefore, these calculations do not include an estimate for retiree prescription drug plan federal subsidies that the County of Stockton may be eligible to receive for plan years beginning in 2006.
Administrative Expenses:	An annual administrative expense load of $88 was added per retiree for the 2011/2012 fiscal year, and assumed to increase 5% per year.
Plan Design:	Development of plan liabilities was based on the substantive plan of benefits in effect as described in Exhibit III.
Assumption Changes since Prior Valuation:	Per capita costs and trend rates were updated.

EXHIBIT III

Summary of Plan

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

Eligibility:

Participant must retire from City service, covered under a medical plan of the City at the time of retirement, and be eligible to receive a monthly pension from the City of Stockton defined benefit pension plan at the time of retirement.

Service Retirement

- Age 50 and 5 years CalPERS Services or;
- Age 50 and 15 years city service for SCEA, Trades and Maintenance, Operations and Maintenance MUD

Disability Retirement

- CalPERS Disability Retirement
- No disability retirement for Trades and Maintenance, Operations and Maintenance MUD

Retiree Medical Benefit:	City offers two medical plans – original and modified with the original plan closed to any new enrollment.
Before age 65	Medical for retiree plus 1 spouse or dependent.
After age 65	Medicare supplemental coverage for retiree plus 1 spouse or dependent for retirement on or after: ➤ January 1, 1985 for Management & Confidential, Mid-Management & Supervisory, Law Department ➤ January 1, 1990 for Police Management ➤ January 1, 1996 for Fire, Fire Management ➤ January 1, 1997 for SCEA, Trades & Maintenance ➤ August 1, 1998 for Police Capped at July 1, 2012 cost for Police hired before July 1, 2007 who retire after June 30, 2012 Capped at July 1, 2013 cost for Police Management hired before July 1, 2007 who retire after June 30, 2013 City pays Medicare Part A premium for non-Medicare eligible retirees for Fire retired after January 1, 1996, Fire Management retired after January 1, 1997, and Police retired after July 1, 2006, and Police Management retired after July 1, 2006 Trades & Maintenance can participate in OEHWT for pre-Medicare coverage and join the City's plan at age 65 with the City contribution equal to average active and retiree enrollee cost

Retiree Contributions:	Disability retiree pays monthly contribution for years greater than 15 before age 65: $896.61 for single, $1,613.90 for 2-party, $2,152.88 for family
	Police & Police Management retirees hired after July 1, 2007, Mid-Management, and Supervisory and SCEA retirees hired after January 1, 2009 participate in retiree medical trust and can participate in the City's OPEB plan by paying the full premium cost
Retiree Dental Benefit:	100% dental for retirees plus 1 spouse or dependent to age 65 for City Manager, Assistant Manager, Deputy City Manager II, Department Heads (including Police Chief and Fire Chief), Executive Plan Law Department
	No City retiree dental contribution for other employee groups
Surviving Spouse Benefit:	*Active Retirement Eligible Death* - 100% medical to age 65; 100% dental and vision for Mid-Management & Supervisory to age 65
	Active Safety Line-of-Duty Death – 100% medical, dental, and vision to age 65 for surviving spouse and dependents. (Per City but only in Fire Management MOU for Battalion Chiefs)
	Retiree Death – 100% medical to age 65, 100% medical after age 65 if retiree eligible
Other Retirees Benefit:	Retiree medical trust in lieu of retiree medical defined benefit plan for Police & Police Management retirees hired after July 1, 2007 and Mid-Management & Supervisory and SCEA retirees hired after January 1, 2009

Medicare Integration for the PPO Plan: COB method in which the plan benefit is the difference between the allowable charge and Medicare payment but not more than what would have been paid in the absence of Medicare.

Benefit Descriptions:

Medicare and Non-Medicare Retirees

Medical	City Modified Health Plan In-Network	City Modified Health Plan Out-of-Network
Annual Deductible	\$500 per Individual (\$1,500 Family)	\$1,500 per Individual (\$3,000 Family)
Out-of-Pocket Limit	\$5,000 per Individual (\$10,000 Family)	None
Maximum Lifetime Benefit	None	None
Physicians Services		
Physician Office Visits	80%	50% (80% emergency room care)
Preventive Care	Deductible waived, 100%	50%
Hospital or Outpatient Facility		
Inpatient	\$75 per admission copay + 80%	\$200 per admission copay + 50%
Diagnostic X-ray and Lab	80%	50%
Emergency Room Treatment	80%; 50/% if it is determined that an emergency did not exist	80%; 50% it is determined that an emergency did exist

Medical (continued)	City Modified Health Plan In-Network	City Modified Health Plan Out-of-Network
Mental Health Care and Substance Abuse Treatment		
Inpatient mental health care	$75 per admission copay + 80%	$200 per admission copay + 50%
Outpatient mental health care	80%	50%
Inpatient substance abuse treatment	$75 per admission copay + 80%	$200 per admission copay + 50%
Outpatient substance abuse treatment	80%	50%
Prescription Drug Program (No calendar year deductible applies)		
Retail pharmacy (30 day supply limit)	$10 copay for generic $35 copay for non-generic formulary $35 copay plus cost difference between non-formulary and formulary for non-generic non-formulary	Not Covered
Mail service pharmacy (90 day supply limit) *Mandatory mail service after initial prescription*	$20 copay for generic $70 copay for non-generic formulary $70 copay plus cost difference between non-formulary and formulary for non-generic non-formulary	Not Covered

Benefit Descriptions:

Closed group of 57 Medicare and Non-Medicare Retirees

Medical (Basic Benefits)	City Original Health Plan In-Network	City Original Health Plan Out-of-Network
Annual Deductible	None	None
Out-of-Pocket Limit	None	None
Maximum Lifetime Benefit	None	None
Physicians Services		
Surgical Care	100% of 1974 RVS at $116.55 per unit	100% of 1974 RVS at $116.55 per unit
Inpatient Visits	100% of 1974 RVS at $6 per unit	100% of 1974 RVS at $6 per unit
Other Care	Generally covered only under major medical	Generally covered only under major medical
Hospital or Outpatient Facility		
Inpatient	100% (Maximum of 100 days per confinement period)	100% (Maximum of 100 days per confinement period)
Diagnostic X-ray and Lab	100% (Maximum of $720/year; balance to major medical benefits)	100% (Maximum of $720/year; balance to major benefits)
Emergency Room Treatment	100%; $15 benefit for non-surgical physician care	100%; $15 benefit for non-surgical physician care
Additional Accident Benefit	$500	$500

Medical (Major Benefits)	City Original Health Plan In-Network	City Original Health Plan Out-of-Network
Annual Deductible	$100 per Individual ($300 Family)	$100 per Individual ($300 Family)
Out-of-Pocket Limit	After the plan pays $2,400, plan pays 100% for the remainder of the year	After the plan pays $2,400, plan pays 100% for the remainder of the year
Maximum Lifetime Benefit	$300,000; $1,000 annual reinstatement	$300,000; $1,000 annual reinstatement
Physicians Services		
Preventive Care	Not Covered	Not Covered
Other Care	80% of 1974 RVS at $116.55 per unit surgery, $6 per unit medicine	80% of 1974 RVS at $116.55 per unit surgery, $6 per unit medicine
Hospital or Outpatient Facility		
Inpatient	80%	80%
Diagnostic X-ray and Lab	80%	80%
Emergency Room Treatment	80%	80%

Medical (Major Benefits continued)	City Original Health Plan In-Network	City Original Health Plan Out-of-Network
Mental Health Care and Substance Abuse Treatment		
Inpatient mental health care	80% (Maximum of $3,500 per year)	80% (Maximum of $3,500 per year)
Outpatient mental health care	50% maximum payment of $15 per visit (Maximum of 50 visits per year)	50% maximum payment of $15 per visit (Maximum of 50 visits per year)
Inpatient substance abuse treatment	Not Covered	Not Covered
Outpatient substance abuse treatment	Not Covered	Not Covered
Prescription Drug Program (Retirements on or after 1/1/85)		
Retail pharmacy (Maximum of 34-day supply limit or 100 units, whichever is greater)	$1 copay	$1 deductible per prescription or refill

Changes Since Prior Valuation:	Effective September 1, 2011, the Plan was amended as follows:
	The lifetime maximum was removed;
	The annual deductible was increased to $500 for in-network providers and $1,500 for out-of-network providers;
	The out-of-pocket maximum was increased to $1,000 for in-network providers; there is no out-of-pocket maximum for out-of-network providers;
	Co-insurance was dropped from 100% to 80% for in-network providers and 50% for out-of-network providers for several coverages;
	Retail prescription co-pays were increased to $10 for generics and $35 for brand drugs for in-network providers. No retail benefits are available for out-of-network providers.

EXHIBIT IV

Definitions of Terms

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

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

(a) Investment return — the rate of investment yield that the Plan will earn over the long-term future;

(b) Mortality rates — the death rates of employees and pensioners; life expectancy is based on these rates;

(c) Retirement rates — the rate or probability of retirement at a given age;

(d) Turnover rates — the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

Actuarial Present Value of Total Projected Benefits (APB): Present value of all future benefit payments for current retirees and active employees taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions.

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

Actuarial Accrued Liability For Actives: The equivalent of the accumulated normal costs allocated to the years before the valuation date.

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

Actuarial Value of Assets (AVA):	The value of assets used by the actuary in the valuation. These may be at market value or some other method used to smooth variations in market value from one valuation to the next.
Funded Ratio:	The ratio AVA/AAL.
Unfunded Actuarial Accrued Liability (UAAL):	The extent to which the actuarial accrued liability of the Plan exceeds the assets of the Plan. There is a wide range of approaches to paying off the unfunded actuarial accrued liability, from meeting the interest accrual only to amortizing it over a specific period of time.
Amortization of the Unfunded Actuarial Accrued Liability:	Payments made over a period of years equal in value to the Plan's unfunded actuarial accrued liability.
Investment Return (discount rate):	The rate of earnings of the Plan from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next. If the plan is funded on a pay-as-you-go basis, the discount rate is tied to the expected rate of return on day-to-day employer funds.
Covered Payroll:	Annual reported salaries for all active participants on the valuation date.
ARC as a Percentage of Covered Payroll:	The ratio of the annual required contribution to covered payroll.
Health Care Cost Trend Rates:	The annual rate of increase in net claims costs per individual benefiting from the Plan.
Annual Required Contribution (ARC):	The ARC is equal to the sum of the normal cost and the amortization of the unfunded actuarial accrued liability.

Net OPEB Obligation (NOO): The NOO is the cumulative difference between the ARC and actual contributions made. If the plan is not pre-funded, the actual contribution would be equal to the annual benefit payments less retiree contributions. There are additional adjustments in the NOO calculations to adjust for timing differences between cash and accrual accounting, and to prevent double counting of OPEB plan costs.

EXHIBIT V

Accounting Requirements

The Governmental Accounting Standards Board (GASB) issued Statement Number 43 -- *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement Number 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* Under these statements, all state and local government entities that provide other post employment benefits (OPEB) are required to report the cost of these benefits on their financial statements. The accounting standards supplement cash accounting, under which the expense for postemployment benefits is equal to benefit and administrative costs paid on behalf of retirees and their dependents (*i.e.*, a pay-as-you-go basis).

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

The new standards introduce an accrual-basis accounting requirement, thereby recognizing the employer cost of postemployment benefits over an employee’s career. The standards also introduce a consistent accounting requirement for both pension and non-pension benefits.

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

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

4 contain a definition of terms as well as more information about GASB 43/45 concepts.

The calculation of an accounting obligation does not, in and of itself, imply that there is any legal liability to provide the benefits valued, nor is there any implication that the Employer is required to implement a funding policy to satisfy the projected expense.

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

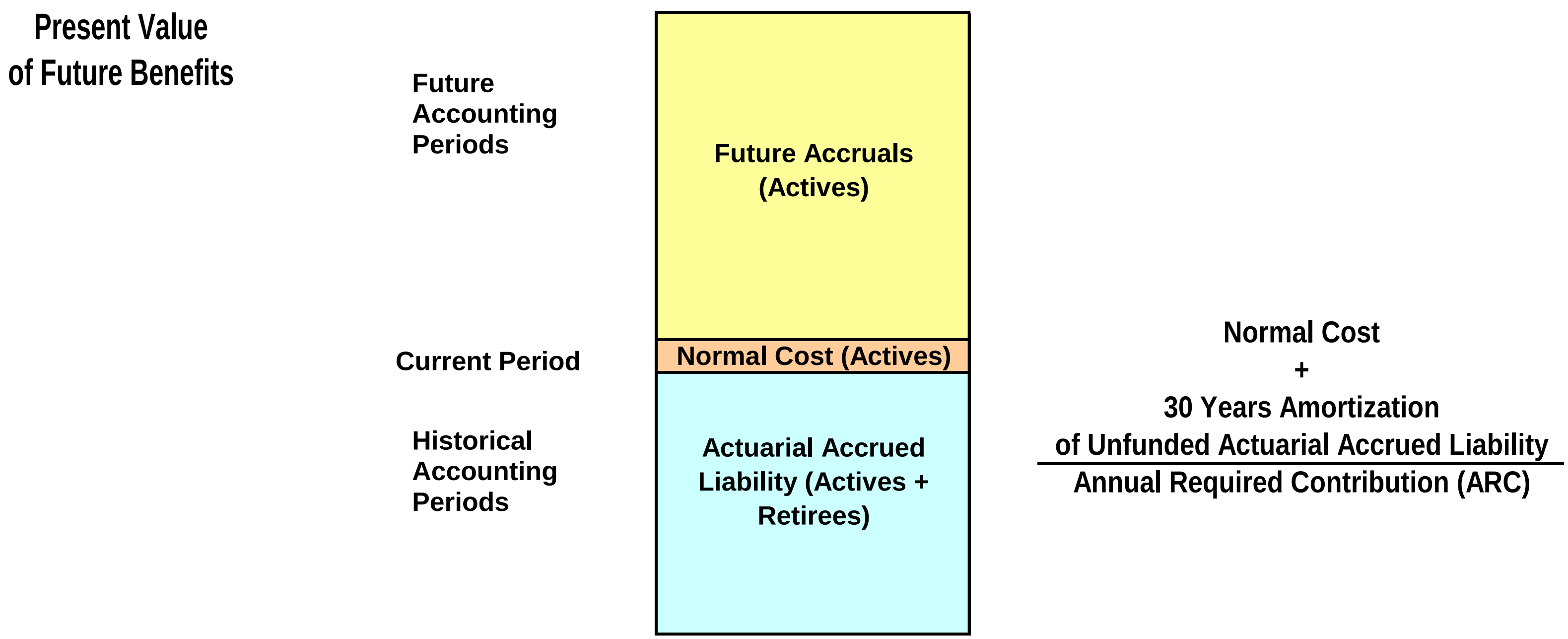
Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the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

EXHIBIT VI

GASB 43/45 Concepts

This graph shows how the actuarial present value of the total projected benefits (APB) is broken down and allocated to various accounting periods. The exact breakdown depends on the actuarial cost method and amortization methods selected by the employer.

GASB 43/45 Measurement Elements Using Actuarial Cost Methods



Net OPEB Obligation = $ARC_1 + ARC_2 + ARC_3 + \ldots\ldots$

$- \text{Contribution}_1 - \text{Contribution}_2 - \text{Contribution}_3 - \ldots\ldots$