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March 4, 1993

Mr. Gary Peterson
Auditor - Controller/Treasurer
Fresno County
Employees' Retirement Association
P.O. Box 1247
Fresno, California 93715-1247

Dear Mr. Peterson:

Pursuant to our agreement, we have completed the Actuarial Study on the Possible Termination of the Valley Medical Center from the County Employees' Retirement System as of July 1, 1992, the date of the latest actuarial valuation. A projection on an estimated basis was also made assuming possible termination date of July 1, 1993. We are pleased to hand you herewith our report on the results of the study.

The study was based upon financial statements and Valley Medical Center employee data furnished by the Retirement Office. To calculate the costs of the possible termination, we have allocated on an estimated basis the assets of the County Retirement System that could equitably be assigned to the Valley Medical Center.

We look forward to discussing this report with all interested parties and we wish to express our appreciation for the cooperation extended to us during the course of the study.

Respectfully submitted,

W F CORROON

By ______________________________
Krystyna H. Upstill, E.A.
Senior Vice President and Actuary

KHU:abd

Enclosure

POSSIBLE TERMINATION OF VALLEY MEDICAL CENTER FROM FRESNO COUNTY EMPLOYEES' RETIREMENT SYSTEM

ACTUARIAL REPORT

March 4, 1993

VALLEY MEDICAL CENTER
POSSIBLE TERMINATION STUDY

March 4, 1993

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VALLEY MEDICAL CENTER
POSSIBLE TERMINATION STUDY

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Description of Assignment

As part of our regular Actuarial Valuation of the Fresno County Employees' Retirement System, we were asked to perform a special study on the possible termination of the Valley Medical Center (VMC) from the County Retirement Plan. Assets were allocated to VMC on an estimated basis as of June 30, 1992, the valuation date, and liabilities on a termination basis were also calculated as of that date. The unfunded liabilities (the excess of liabilities over the estimated assets) are being shown in the report, along with the required annual payments to amortize the single sum liability over a 5, 10, 15, or 18-year period. (The 18-year period is shown because this is the amortization period currently used by the System.) In addition, assets and liabilities were projected to July 1, 1993, the possible termination date, to arrive at the estimated unfunded liability and the payments required to amortize this liability as of July 1, 1993.

The effect of this termination on the County's contribution rate was also calculated as part of our study. The employee contribution rates were assumed not to be affected by this termination.

VALLEY MEDICAL CENTER
POSSIBLE TERMINATION STUDY

March 4, 1993

Procedure Used in the Study

The necessary statistical information used in this study was provided by the County Retirement Office for active, inactive and retired VMC employees.

We received from the Retirement Office an Accounting Balance Sheet of the total System as of June 30, 1992, showing the assets, liabilities, and reserves at that point in time. These assets were allocated between the Valley Medical Center and the County based on the accrued actuarial liabilities (AAL) as of that date.

Starting with this allocation, we projected the asset allocation to July 1, 1993, a possible termination date. We believe that the estimated assets used in this study are satisfactory for the purposes of these cost calculations.

We also calculated the resulting liabilities if the VMC were to terminate Retirement Plan coverage on the two dates. In this calculation, we took into account the number of members who were then drawing retirement allowances, the active members who were eligible to retire immediately, and the active members who had at least 5 years of service and who could either receive deferred retirement benefits or, if employed elsewhere after termination from the VMC, reciprocal benefits. In addition to these three groups, there is a fourth group made up of all active members with less than 5 years of service. For purposes of this study, we assumed that the members with less than 5 years of service will receive a refund of their own contributions.

The above discussed liabilities were calculated on the current interest rate assumption of 8-1/2% per annum. Because the application of and the effect on the interest assumption will extend over a long period of time, say 30 years, we feel that the use of the 8-1/2% level of interest is appropriate. This is the same basis recommended to the Board of Retirement in connection with our June 30, 1992 actuarial valuation.

VALLEY MEDICAL CENTER
POSSIBLE TERMINATION STUDY

March 4, 1993

Conclusions and Recommendations of the Study

A. Assumptions Made

In this study we have calculated the effect on County costs if the termination of the employees of the Valley Medical Center (VMC) from the County Employees' Retirement System takes place, with alternatives for the employees of retirement, deferred retirement, or refund of employee contributions.

Demographics

In the cost calculations we have assumed the present active employees will do one of the following:

1. All those employees with less than five years of service will obtain a refund of their contributions plus interest.
2. Ninety-two percent of those employees with more than five but less than ten years of service and those with more than ten years of service but who are not yet age fifty will go on deferred retirement and begin receiving their retirement allowances from the County at age fifty (or immediately, if they have already attained age fifty). Benefits for these employees will be based on present salaries for the June 30, 1992 calculations. For the July 1, 1993 projection, we estimated that the salaries will increase by 6% to reflect the assumed 5% inflation rate and 1% for merit and longevity.
3. Eight percent of those employees with more than five years of service who are not yet age fifty will ultimately become covered under reciprocity in another public retirement system and begin receiving their retirement allowances from the County at age 62 (or immediately, if they have already attained age 62). Benefits for these employees will be based on projected salaries to age 62.
4. All employees who are presently eligible to retire for service will retire as of the valuation date.

Assets

As part of this study, we first allocated the June 30, 1992 plan assets used to determine contribution rates among retired, deferred vested and active members, using benefits earned to date based on the Accrued Actuarial Liability (AAL) under the Entry Age Normal Cost funding method as shown below. Please note that the word "County" is used for all non-VMC members.

	BASIC (in 000's)		COL (in 000's)	COUNTY AND VMC COMBINED (in 000's)
	General	Safety	All	Total
Assets Used to Determine Employer Contribution Rates				
Retired members	$ 149,771	$ 27,134	$ 110,575	$ 287,480
Deferred members	18,747	1,598	6,277	26,622
Active members	139,966*	40,222	45,708*	225,896
Total	$ 308,484	$ 68,954	$ 162,560	$ 539,998

*Including members' own contributions with interest.

Please note that under this methodology, we are assuming that all current retired and deferred members, including those previously working for the VMC, would stay in the retirement system.

Next, we allocated the net assets among the County and the VMC in proportion to the AAL for actives, separately for basic and cost-of-living benefits, as follows:

	VMC (in 000's)	COUNTY (in 000's)	TOTAL (in 000's)
Actuarial Accrued Liability			
1. Basic (General Only)			
a. Amount	$ 79,683	$ 162,974	$ 242,657
b. Percentage of total	19.83%	80.17%	100%
2. COL (General and Safety)			
a. Amount	$ 15,385	$ 81,925	$ 97,310
b. Percentage of total	15.81%	84.19%	100%
3. Total			
a. Amount	$ 95,068	$ 244,899	$ 339,967
b. Percentage of total	N/A	N/A	100%

We then applied the percentage to the appropriate assets to arrive at the asset allocation between the VMC and the County. Please note that for cost-of-living (COL) liabilities, we used the percentage based on both General and Safety members because the current COL assets and contribution rates are shared among these groups. The net VMC assets are as follows:

	ALLOCATED ASSETS	PERCENTAGE ALLOCATED TO VMC	ALLOCATED FMC ASSETS
Basic (General)	$ 139,966	19.83%	$ 27,755
Basic (Safety Only)	40,222	0%	0
COL (General and Safety)	45,708	15.81%	7,227
Total	$ 225,896		$ 34,982

In Table 1 below we show a brief statistical summary of the Hospital employees as of June 30, 1992. More detailed information on the active members is shown in Schedule A of the Appendix.

Table 1

	6/30/92		
	Number	Salaries	Members' Contributions
Service less than 5 years	742	$ 19,647,588	$ 1,748,598
More than 5 years of service but not eligible to retire	607	19,505,100	11,622,216
More that 10 years of service and age 50 or older	136	3,847,218	4,400,558
Total	1,485	$ 42,999,906	$ 17,771,372

Shown below in Table 2 is a summary of the monthly retirement allowances payable on June 30, 1992 to the VMC retired members and beneficiaries then on the retirement roll.

Table 2

		ANNUAL RETIRED PAYROLL		
	Number	Basic	COL	Total
Type				
Service	449	$ 3,033,000	$ 792,000	$ 3,825,000
Disability	41	182,000	74,000	256,000
Beneficiaries	34	120,000	47,000	167,000
Total	524	$ 3,335,000	$ 913,000	$ 4,248,000

Other Actuarial Assumptions

All other actuarial assumptions used in this study were the same as those used in our June 30, 1992 valuation report dated February 11, 1992. A summary of these assumptions is included in Schedule B of the Appendix. In projecting the assets and the liabilities to July 1, 1993, we have assumed no terminations among the active members.

B. Summary of Results

In Table 3 below, we compare the assets and liabilities for the VMC as calculated on June 30, 1992, and projected to July 1, 1993.

Table 3

Comparison of Assets and Accrued Liabilities for the VMC

	JUNE 30, 1992	JULY 1, 1993
Assets:*		
1. Assets at Book Value (excluding 1% Contingency Reserve)	$ 34,982,000	$ 45,201,000
2. Employer portion of the 1% Contingency Reserve	350,000	452,000
3. Total Assets as of June 30	$ 35,332,000	$ 45,653,000
4. Active members now eligible to retire	17,835,000	23,481,000
5. Net assets available [3.-4.]	$ 17,497,000	$ 22,172,000
Accrued Actuarial Liability for:		
6. Members' contributions to be refunded	$ 1,749,000	$ 2,429,000
7. Deferred and reciprocal benefits	24,612,000	29,413,000
8. Total Liability	26,361,000	31,842,000
9. Net Unfunded Accrued Actuarial Liability (UAAL) [8. -5.]	$ 8,864,000	$ 9,670,000

*Employer assets are on an estimated basis.

Please note that the net assets (Item 5) are net of the accrued actuarial liabilities for active members eligible to retire as of that date. We assumed that all these members will retire effective June 30, 1993 and their liabilities and the corresponding assets will stay in the County Retirement System.

In Table 3 Item 9, VMC's liabilities under the County Retirement Plan exceed the net assets available if termination of coverage takes place on either June 30, 1992 or July 1, 1993. The Unfunded Accrued Actuarial Liabilities (UAAL) or "shortages" are shown in Table 4 as single sum liabilities not yet funded. Various possible annual contribution levels are shown, assuming different periods used to amortize the amounts of the UAAL as a level percentage of VMC payroll assuming increases in payroll of 5% per year.

Table 4

Payment of the Unfunded Accrued Actuarial Liabilities (UAAL)

	JUNE 30, 1992	JULY 1, 1993
UAAL	$ 8,864,000	$ 9,670,000
Amount of Payment in First Year		
5 years	$ 1,920,000	$ 2,094,000
10 years	$ 1,038,000	$ 1,133,000
15 years	$ 747,000	$ 815,000
To June 30, 2010 (current schedule)	$ 651,000	$ 741,000
Expressed as a Level Percentage of Payroll Increasing at 5% Per Year		
5 years	4.47%	4.64%
10 years	2.41%	2.51%
15 years	1.74%	1.81%
To June 30, 2010 (current schedule)	1.51%	1.64%

Effect of VMC on County Contribution Rate.

If the VMC terminates from the County's Retirement System, the County's contribution rates will increase as follows:

	County Contribution		
	% of Total Payroll	Annual Amount* as of 6/30/92	Annual Amount* as of July 1, 1993
Effect of VMC Termination on County Contribution			
1. Before VMC termination	13.61%**	$ 20,640,000	$ 21,672,000
2. After VMC termination	13.96%	$ 21,171,000	$ 22,230,000
3. Net increase (2. - 1.)	.35%	$ 531,000	$ 558,000

* Based on the total payroll of $151,642,000 as of June 30, 1992 (and excluding VMC payroll). Based on our actuarial assumptions, this payroll is expected to increase by 5% (inflation) through July 1, 1993.

** Equivalent to the $13.47 aggregate contribution rate recommended in our June 30, 1992 valuation report. The higher percentage represents the higher proportion of Safety members after VMC termination.

The main reason for this increase is due to the fact that, on the average, VMC employees have about two years of service less than the County employees.

C. Conclusions and Comments

Throughout this report calculations have assumed that the future economic and noneconomic assumptions will remain unaffected by the VMC termination. In reality, the termination will most likely affect future experience of the plan.

Noneconomic Assumptions

Due to the timing of this study, we were unable to accurately determine the effect of VMC's withdrawal on the noneconomic assumptions. For purposes of estimating the effect, we assumed that the future nonvested withdrawal from the County will decrease by approximately 10%. If this were to materialize, it would cause the County rate to increase further due to a greater expected number of future retirees. We estimated this increase to be about .40% of total non-VMC payroll, or $609,000 per annum, based on the June 30, 1992 payroll.

Economic Assumptions

Future economic assumptions may also be affected by the VMC's termination, due to reduced new income to the fund. We did not make any modifications in our assumptions, however, the County future contributions could increase if the income to the fund was adversely affected by this termination.

Reciprocal Benefits

In our study we assumed that only 8% of the deferred members will subsequently leave Valley Medical Center to work for an employer that has a reciprocity agreement with Fresno County Retirement System. To the extent that the actual numbers are higher than 8%, the cost to the County will also be higher.

APPENDIX

SCHEDULE A

TOTAL ANNUAL SALARY AND MEMBERSHIP
DISTRIBUTION OF ACTIVE MEMBERS
AT VALLEY MEDICAL CENTER
AS OF JUNE 30, 1992

MALE

PRESENT AGE	YEARS OF SERVICE 0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 & OVER	TOTAL
BELOW 20	1 6,943							1 6,943
20 -24	17 281,387							17 281,387
25 - 29	28 566,471	10 258,949						38 825,420
30 - 34	41 1,061,554	14 357,556	3 62,436					58 1,481,546
35 - 39	33 1,008,085	21 731,290	15 511,526	7 175,631				76 2,426,532
40 - 44	44 1,214,554	9 227,876	20 742,548	18 585,284	2 35,002			93 2,805,264
45 - 49	23 861,876	6 156,908	8 225,793	7 212,880	11 415,075	1 17,501		56 1,890,033
50 - 54	6 126,941	5 230,994	2 69,040	3 106,487	4 118,006	1 47,535	2 57,963	23 756,966
55 - 59	2 56,647	2 92,497	2 35,002	3 121,153	1 31,127		1 58,145	11 394,571
60 - 64	1 13,158	1 17,501	2 54,166		1 17,501			5 102,326
65 - 69		1 32,531						1 32,531
70 & OVER								
TOTAL	196 5,197,616	69 2,106,102	52 1,700,511	38 1,201,435	19 616,711	2 65,036	3 116,108	379 11,003,519

AVERAGE AGE	39.75
AVERAGE SERVICE	7.25
AVERAGE ENTRY AGE	32.50

SCHEDULE A

TOTAL ANNUAL SALARY AND MEMBERSHIP DISTRIBUTION OF ACTIVE MEMBERS AT VALLEY MEDICAL CENTER

AS OF JUNE 30, 1992

FEMALE

PRESENT AGE	YEARS OF SERVICE 0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 & OVER	TOTAL
BELOW	1							1
20	13,808							13,808
	31							31
20 -24	651,794							651,794
	94	16	1					111
25 - 29	2,127,759	551,492	25,900					2,705,151
	125	44	18	1				188
30 - 34	3,354,326	1,545,029	525,363	20,512				5,445,230
	115	45	56	11	1			228
35 - 39	3,342,230	1,515,127	1,775,010	312,514	25,900			6,970,781
	88	55	29	23	7			202
40 - 44	2,590,060	1,991,516	954,414	740,620	211,074			6,487,684
	49	37	31	18	8	3		146
45 - 49	1,263,262	1,076,464	1,071,444	636,758	238,327	102,118		4,388,373
	31	18	30	16	3	4	3	105
50 - 54	841,719	466,117	804,591	435,982	108,686	125,417	68,417	2,850,929
	9	17	15	11	7	3	3	65
55 - 59	165,074	437,363	470,905	267,452	200,075	91,404	94,395	1,726,668
	2	6	7	3	3		2	23
60 - 64	59,472	145,389	171,965	64,178	85,397		39,578	565,979
	1	1	2				1	5
65 - 69	40,462	46,859	26,147				50,864	164,332
70 &				1				1
OVER				25,640				25,640
	546	239	189	84	29	10	9	1,106
TOTAL	14,449,966	7,775,356	5,825,739	2,503,656	869,459	318,939	253,254	31,996,369

AVERAGE AGE	40.75
AVERAGE SERVICE	7.25
AVERAGE ENTRY AGE	33.50

SCHEDULE A

TOTAL ANNUAL SALARY AND MEMBERSHIP
DISTRIBUTION OF ACTIVE MEMBERS
AT VALLEY MEDICAL CENTER
AS OF JUNE 30, 1992

MALE AND FEMALE

	YEARS OF SERVICE							
PRESENT AGE	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 & OVER	TOTAL
BELOW	2							2
20	20,751							20,751
	48							48
20 - 24	933,181							933,181
	122	26	1					149
25 - 29	2,694,230	810,441	25,900					3,530,571
	166	58	21	1				246
30 - 34	4,415,880	1,902,585	587,799	20,512				6,926,776
	148	66	71	18	1			304
35 - 39	4,350,315	2,246,417	2,286,536	488,145	25,900			9,397,313
	132	64	49	41	9			295
40 - 44	3,804,614	2,219,392	1,696,962	1,325,904	246,076			9,292,948
	72	43	39	25	19	4		202
45 - 49	2,125,138	1,233,372	1,297,237	849,638	653,402	119,619		6,278,406
	37	23	32	19	7	5	5	128
50 - 54	968,660	697,111	873,631	542,469	226,692	172,952	126,380	3,607,895
	11	19	17	14	8	3	4	76
55 - 59	221,721	529,860	505,907	388,605	231,202	91,404	152,540	2,121,239
	3	7	9	3	4		2	28
60 - 64	72,630	162,890	226,131	64,178	102,898		39,578	668,305
	1	2	2				1	6
65 - 69	40,462	79,390	26,147				50,864	196,863
70 &				1				1
OVER				25,640				25,640
	742	308	241	122	48	12	12	1,485
TOTAL	19,647,582	9,881,458	7,526,250	3,705,091	1,486,170	383,975	369,362	42,999,888

AVERAGE AGE	40.50
AVERAGE SERVICE	7.25
AVERAGE ENTRY AGE	33.25

SUMMARY OF ASSUMPTIONS

Assumptions

Valuation Interest Rate	8-1/2%
Post-Retirement Mortality	
(a) Service	
General Males	1983 Male Group Annuity Mortality Table set back one year
General Females	1983 Female Group Annuity Mortality Table set forward one year
Safety	1983 Male Group Annuity Mortality Table set back one year
(b) Disability	1981 Disability Mortality Table
(c) For Employee Contribution Purposes	
General	1983 Male Group Annuity Mortality Table with a four year setback
Safety	1983 Male Group Annuity Mortality Table set back one year
Pre-Retirement Mortality	Based upon the Experience Analysis as of July 1, 1992
Withdrawal Rates	Based upon the Experience Analysis as of July 1, 1992
Disability Rates	Based upon the Experience Analysis as of July 1, 1992
Service Retirement Rates	Based upon the Experience Analysis as of July 1, 1992
Salary Scale	Total increase of approximately 6% per year. Approximately 1% of this increase is for merit and longevity and 5% is for inflation.
Assets	Valued at Book

Funding Method

The County's liability is currently being funded on the Entry Age Normal method with an Unfunded Actuarial Accrued Liability (UAAL). The amortization period for the UAAL is 18 years from the June 30, 1992 valuation date.