

**BUCK
CONSULTANTS**

100 California Street Suite 1300
San Francisco, California 94111

April 7, 1995

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

Dear Gary:

We are pleased to present our report on the Possible Termination of the Valley Medical Center from the County Employees' Retirement Association as of June 30, 1995.

We hereby certify that the valuation was performed in accordance with generally accepted actuarial principles and practices.

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,



Krystyna H. Upstill, E.A., M.A.A.A.
Principal



Anita L. Zlatev, F.S.A., E.A.
Associate Consulting Actuary

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

ACTUARIAL REPORT

April, 1995

VALLEY MEDICAL CENTER POSSIBLE TERMINATION STUDY

Description of Assignment

In addition to our regular actuarial valuation and experience analysis of the Fresno County Employees' Retirement Association, 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 1994, the valuation date, and projected to June 30, 1995. Liabilities on a termination basis were also calculated as of June 30, 1995. 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, or 15-year period. (The 15-year period is shown because this is the amortization period currently used by the Association.)

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

Methods and Assumptions

The 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 for the total Association as of June 30, 1994, 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) calculated as of that date.

Starting with this allocation, we projected the assets to June 30, 1995, 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 June 30, 1995. In this calculation, we assumed that the currently retired and deferred VMC members would remain covered by the Association. We included in our calculations 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 liabilities were calculated using the current interest rate assumption of 8.25% per annum. This is the interest assumption adopted by the Board of Retirement in connection with the June 30, 1994 actuarial valuation.

Conclusions and Recommendations of the Study

A. Actuarial Assumptions

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 Association takes place, with alternatives of retirement, deferred retirement, or refund of employee contributions for the employees.

Demographics

For purposes of our cost calculations we have assumed the present active members will fall into one of the following categories:

1. All those members with less than five years of service will obtain a refund of their contributions plus interest.
2. Eighty percent of those members 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 at 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 members will be based on the June 30, 1994 salaries projected to June 30, 1995. We estimated that the salaries will increase by 5.75% to reflect the assumed 4.75% inflation rate and 1% for merit and longevity.
3. Twenty percent of those members 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 63 (or immediately, if they have already attained age 63). Benefits for these members will be based on projected salaries to age 63.

4. All members who are presently eligible to retire for service will retire as of the termination date.

Assets

As part of this study, we first allocated the June 30, 1994 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 to describe the non-VMC members.

**Allocation of 6/30/94 Plan Assets Used
to Determine Employer Contribution Rates**

	Basic		COL	Total
	General	Safety	General and Safety	General and Safety
Retired Members	\$ 168,458,000	\$ 34,058,000	\$ 136,136,000	\$ 338,652,00
Deferred Members	21,129,000	2,527,000	8,144,000	31,800,000
Active Members*	179,556,000	46,298,000	53,733,000	279,587,000
Total	\$ 369,143,000	\$ 82,883,000	\$ 198,013,000	\$ 650,039,000

* Including members' own contributions with interest.

First we segregated the retired and deferred members' assets and liabilities based on the assumption that all current retired and deferred members, including those previously working for the VMC, would stay in the Association.

Next, we calculated what percentage of the active members' AAL is applicable to the VMC group, separately for basic and cost-of-living benefits, as shown on the following page:

Allocation of the 6/30/94 Actuarial Accrued Liability

	VMC		COUNTY		TOTAL
1. Basic (General Only)					
a. Amount	\$ 53,596,000	\$	250,031,000	\$	303,627,000
b. Percentage of total	17.65%		82.35%		100%
2. COL (General and Safety)					
a. Amount	\$ 19,310,000	\$	114,464,000	\$	133,774,000
b. Percentage of total	14.43%		85.57%		100%
3. Total					
a. Amount	\$ 72,906,000	\$	433,249,000	\$	506,155,000
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:

Determination of VMC Plan Assets As of June 30, 1994

	Active Members' Assets		Percentage Allocated to VMC		Amount Allocated to VMC
Basic (General)	\$ 179,556,000		17.65%	\$	31,692,000
COL (General and Safety)	\$ 53,733,000		14.43%	\$	7,754,000
Total				\$	39,446,000 *

* Equals \$45,291,000 when projected to June 30, 1995.

In the table on the following page, we show a brief summary of the VMC employee statistics as of June 30, 1994, with service projected through June 30, 1995. More detailed information on the active members is shown in Schedule 3 of the Appendix.

	Active VMC Members		
	Number	Salaries	Members' Contributions
Service less than 5 years	492	\$ 14,673,996	\$ 983,171
More than 5 years of service but not eligible to retire	727	23,353,128	11,979,595
More than 10 years of service and age 50 or older (eligible to retire)	168	5,232,468	5,772,058
Total	1,387	\$ 43,259,592	\$ 18,734,824

A summary of the monthly retirement allowances payable on June 30, 1994 to the VMC retired members and beneficiaries on the retirement roll is as follows:

Type	Number	Retired VMC Members		
		Basic	COL	Total
Service	437	\$ 3,202,000	\$ 950,000	\$ 4,152,000
Disability	40	192,000	88,000	280,000
Beneficiaries	29	90,000	47,000	137,000
Total	506	\$ 3,484,000	\$ 1,085,000	\$ 4,569,000

Other Actuarial Assumptions

All other actuarial assumptions used in this study were the same as those used in our June 30, 1994 valuation report dated March 16, 1994. A summary of these assumptions is included in Schedule 1 of the Appendix. In projecting the assets and the liabilities to June 30, 1995, we have assumed no terminations among the active members.

B. Summary of Results

The table below compares the assets and liabilities for the VMC as projected to June 30, 1995.

Comparison of Assets and Accrued Liabilities for the VMC

As of June 30, 1995

Assets*

1. Assets at Book Value excluding 1% Contingency Reserve	\$	45,291,000
2. Employer portion of the 1% Contingency Reserve		453,000
3. Total Assets as of June 30	\$	45,744,000
4. Active members now eligible to retire		26,208,000
5. Net Assets available (3.- 4.)	\$	19,536,000

Accrued Actuarial Liability for:

6. Members' contributions to be refunded	\$	1,563,000
7. Deferred and reciprocal benefits		38,175,000
8. Total Liability	\$	39,738,000
9. Net Unfunded Accrued Actuarial Liability (UAAL) (8.- 5.)	\$	20,202,000

* Employer assets are on an estimated basis.

Please note that the net assets (Item 5) exclude the accrued actuarial liabilities for active members eligible to retire on June 30, 1995. We assumed that all these members will retire on that date, and that their liabilities and the corresponding assets will stay with the Association.

The VMC's liabilities under the County Retirement Plan exceed the net assets available if termination of coverage takes place on June 30, 1995. The Unfunded Accrued Actuarial Liabilities (UAAL) or "shortages" are shown as single sum liabilities not yet funded. Various possible annual contribution levels are shown, using different periods to amortize the amounts of the UAAL as a level percentage of the VMC payroll. This payroll is assumed to increase by 4.75% per year (the current salary inflation assumption).

Payment of the Unfunded Accrued Actuarial Liabilities (UAAL)

June 30, 1995

Unfunded Actuarial Accrued Liability (UAAL) \$ 20,202,000

Amount of Payment in First Year

5 years	\$	4,382,000
10 years	\$	2,371,000
To June 30, 2010 (current schedule)	\$	1,706,000

**Expressed as a Level Percentage of Payroll
Increasing at 4.75% Per Year**

5 years	10.12%
10 years	5.48%
To June 30, 2010 (current schedule)	3.94%

Effect of VMC Termination on County Contribution Rates

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

Effect of VMC Termination on County Contribution

	% of Total Payroll	County Contribution	
		Annual Amount* as of June 30, 1994	Annual Amount* as of June 30, 1995
Effect of VMC Termination on County Contribution			
1. Before VMC Termination	17.75% **	\$ 30,913,000	\$ 32,382,000
2. After VMC Termination	17.96%	\$ 31,279,000	\$ 32,765,000
3. Net increase (2.- 1.)	0.21%	\$ 366,000	\$ 383,000

* Based on the total payroll of \$174,159,000 as of June 30, 1994 (and excluding VMC payroll). Based on our actuarial assumptions, this payroll is expected to increase by 4.75% (inflation) through June 30, 1995.

** Equivalent to the 17.31% aggregate contribution rate recommended in our June 30, 1994 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 from the Association on future 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 .47% of total non-VMC payroll, or \$819,000 per annum, based on the June 30, 1994 payroll and the current amortization schedule.

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 economic assumptions, however, the County future contributions will increase if the income to the fund is adversely affected by this termination.

Reciprocal Benefits

In our study we assumed that only 20% of the deferred members will subsequently leave Valley Medical Center to work for an employer that has a reciprocity agreement with Fresno County Employees' Retirement Association. To the extent that the actual numbers are higher than 20%, the

cost to the County will also be higher. For example, if 50% of deferred members work for another 1937 Act County or other reciprocal agency, the County costs will increase by an additional 0.99% of payroll, based on the current amortization schedule.

APPENDIX

SCHEDULE 1

SUMMARY OF ACTUARIAL ASSUMPTIONS

The Entry Age Normal Actuarial Cost Method was used in conjunction with the following actuarial assumptions. The UAAL is being funded over 16 years from the June 30, 1994 valuation date.

- | | | |
|-----|---|--|
| 1. | Interest: | 8.25% per annum. |
| 2. | Interest Credited to Employee Accounts: | 8.25% per annum. |
| 3. | Inflation: | 4.75% per annum. |
| 4. | Asset Valuation: | Book value. |
| 5. | Salary Scale: | Inflation plus approximately 1% for merit and longevity. |
| 6. | Spouses and Dependents: | 90% of male employees and 50% of female employees assumed married at retirement, with wives assumed three years younger than husbands. |
| 7. | Rates of Termination of Employment: | Based on July 1, 1994 Experience Analysis. |
| 8. | Years of Life Expectancy After Retirement: | Based on July 1, 1994 Experience Analysis. |
| 9. | Years of Life Expectancy After Disability: | Based on July 1, 1994 Experience Analysis. |
| 10. | Life Expectancy After Retirement for Employee Contribution Rate Purposes: | |
| | - General Members: | 1983 Group Annuity Table for Males, set back four years. |
| | - Safety Members: | 1983 Group Annuity Table for Males set back one year. |

SCHEDULE 2

SUMMARY OF MAJOR PLAN PROVISIONS

1. ELIGIBILITY

First of month following date of employment.

2. DEFINITION OF SALARY

Highest 12 consecutive months of compensation earnable.

3. SERVICE RETIREMENT

- Normal retirement age - 57 and 50 for Section 31676.12 and Section 31664, respectively.

- Early retirement

Age 50 and 10 years, or any age with 30 years for General, and any age with 20 years for Safety.

- Benefit

1/50 times final average salary per year of service.

- Benefit Adjustments

Reduced for retirement before 57 and 50 for Section 31676.12 and Section 31664, respectively.

Increased for retirement after 57 and 50 for Section 31676.12 and Section 31664, respectively.

4. DISABILITY RETIREMENT

- Non-service connected

1.8% of final average salary per year of service, with a maximum of 33-1/3% if projected service is used (age 62 for General, age 55 for Safety), or 90% of the accrued service retirement benefit without a benefit adjustment.

- Service-connected

Greater of 50% of final average salary or service retirement benefit (if eligible).

5. DEATH BEFORE RETIREMENT

- Refund of contributions plus 1/12 of salary per year of service up to 6 years.
- If eligible for disability or service retirement
 - 60% of member's accrued allowance.
- If service-connected
 - 50% of salary.

6. DEATH AFTER RETIREMENT

- Service retirement or ordinary disability
 - 60% of member's allowance payable to an eligible spouse.
- Service disability
 - 100% of member's allowance payable to an eligible spouse.

7. VESTING

- After five years of service.
- Must leave contributions on deposit.

8. MEMBERS' CONTRIBUTIONS

- Based on entry age.

9. COST-OF-LIVING

- "Automatic" 3% COLA for all members.

SCHEDULE 3

AGE AND SERVICE DISTRIBUTION WITH ANNUAL SALARY
as of June 30, 1994

ACTIVE GENERAL MALE VMC MEMBERS

SERVICE AGE	1	5	10	15	20	25	30	35	40	45	50	TOTAL		
15	0	0	0	0	0	0	0	0	0	0	0	0	0	NUMBER
	0	0	0	0	0	0	0	0	0	0	0	0	0	SALARY
20	11	0	0	0	0	0	0	0	0	0	0	11	NUMBER	
	174164	0	0	0	0	0	0	0	0	0	0	174164	SALARY	
25	30	6	1	0	0	0	0	0	0	0	0	37	NUMBER	
	761751	124247	18021	0	0	0	0	0	0	0	0	904019	SALARY	
30	30	21	6	0	0	0	0	0	0	0	0	57	NUMBER	
	835429	620459	165360	0	0	0	0	0	0	0	0	1621248	SALARY	
35	39	19	9	7	0	0	0	0	0	0	0	74	NUMBER	
	1380882	488278	298449	146403	0	0	0	0	0	0	0	2314012	SALARY	
40	33	13	15	14	4	0	0	0	0	0	0	79	NUMBER	
	1349972	423205	656374	517509	78975	0	0	0	0	0	0	3026035	SALARY	
45	27	11	11	9	11	1	0	0	0	0	0	70	NUMBER	
	900477	320946	371093	327546	430213	22935	0	0	0	0	0	2373210	SALARY	
50	9	8	7	4	4	0	0	0	0	0	0	32	NUMBER	
	366885	367032	232528	133428	195992	0	0	0	0	0	0	1295865	SALARY	
55	3	0	1	3	2	3	0	1	0	0	0	13	NUMBER	
	82085	0	35574	102404	54115	102508	0	60459	0	0	0	437145	SALARY	
60	2	1	2	1	1	0	0	0	0	0	0	7	NUMBER	
	49485	18021	102221	18021	18021	0	0	0	0	0	0	205769	SALARY	
65	0	0	0	0	0	0	0	0	0	0	0	0	NUMBER	
	0	0	0	0	0	0	0	0	0	0	0	0	SALARY	
TOTAL	184		52		22		0		0		0		NUMBER	
	5901130		1879620		777316		0		0		0		SALARY	
		79		38		4		1		0		380	NUMBER	
		2362188		1245311		125443		60459		0		12351467	SALARY	

SCHEDULE 3

AGE AND SERVICE DISTRIBUTION WITH ANNUAL SALARY
as of June 30, 1994

ACTIVE GENERAL FEMALE VMC MEMBERS

SERVICE AGE	1	5	10	15	20	25	30	35	40	45	50	TOTAL		
15	0	0	0	0	0	0	0	0	0	0	0	0	0	NUMBER
	0	0	0	0	0	0	0	0	0	0	0	0	0	SALARY
20	25	1	0	0	0	0	0	0	0	0	0	26	NUMBER	
	582404	20803	0	0	0	0	0	0	0	0	0	603207	SALARY	
25	73	14	1	0	0	0	0	0	0	0	0	88	NUMBER	
	1994688	342057	20621	0	0	0	0	0	0	0	0	2357366	SALARY	
30	83	47	17	0	0	0	0	0	0	0	0	147	NUMBER	
	2348158	1412263	531379	0	0	0	0	0	0	0	0	4291800	SALARY	
35	105	46	33	16	0	0	0	0	0	0	0	200	NUMBER	
	3287319	1568074	1153924	486837	0	0	0	0	0	0	0	6496154	SALARY	
40	64	60	33	19	6	0	0	0	0	0	0	182	NUMBER	
	2024886	1930430	1257749	633249	217966	0	0	0	0	0	0	6064280	SALARY	
45	40	48	33	24	15	5	0	0	0	0	0	165	NUMBER	
	1165672	1595143	1170212	891758	445007	167805	0	0	0	0	0	5435597	SALARY	
50	29	29	26	16	6	3	0	0	0	0	0	109	NUMBER	
	789299	880598	709027	500473	154546	86671	0	0	0	0	0	3120614	SALARY	
55	14	14	14	13	3	3	1	0	0	0	0	62	NUMBER	
	328379	376245	402776	454603	109165	107917	44389	0	0	0	0	1823474	SALARY	
60	1	8	4	6	0	3	0	0	0	0	0	22	NUMBER	
	49252	182309	114756	123961	0	97879	0	0	0	0	0	568157	SALARY	
65	0	2	3	1	0	0	0	0	0	0	0	6	NUMBER	
	0	91743	55193	20621	0	0	0	0	0	0	0	167557	SALARY	
TOTAL	434		164		30		1		0		0		NUMBER	
	12570057		5415637		926684		44389		0		0		SALARY	
		269		95		14		0		0		1007	NUMBER	
		8399665		3111502		460272		0		0		30928206	SALARY	