BUCK CONSULTANTS
100 California Street Suite 1300
San Francisco, California 94111

June 11, 1996

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 October 1, 1996.

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,

K. H. Upstill

Krystyna H. Upstill, E.A., M.A.A.A.
Principal and Consulting Actuary

Anita L. Zlatev

Anita L. Zlatev, F.S.A., E.A.
Associate Consulting Actuary
001.WD6:11306-I96

Buck Consultants, Inc.
415 | 392-0616 Fax 415 | 392-3991

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

ACTUARIAL REPORT

June, 1996

BUCK CONSULTANTS

Description of Assignment

We were asked to perform an update on the special study we performed last year on the possible termination of the Valley Medical Center (VMC) from the County retirement plan. At that time, assets were allocated to VMC using June 30, 1994 actuarial liabilities as the basis. We were provided with total fund assets as of June 30, 1995, and we projected these assets to October 1, 1996, the possible termination date. These assets were then allocated to VMC using the same ratios as were used in the prior study since that is the most current information regarding the total plan liabilities. Liabilities for the VMC population were calculated on a termination basis as of October 1, 1996. 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 14-year period. (The 14-year period is shown because this is the amortization period as of June 30, 1996.)

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 as of April 7, 1996.

We received from the Retirement Office an Accounting Balance Sheet for the *total* Association as of June 30, 1995, showing the assets and reserves at that point in time. We then projected the assets to October 1, 1996, a possible termination date.

These assets were allocated between the Valley Medical Center and the County based on the accrued actuarial liabilities (AAL) calculated as of June 30, 1994, the most recent valuation 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 October 1, 1996. 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. A percentage of 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 April 7, 1996 salaries; we did *not* project this salary since a pay increase is not anticipated until December 1996. We performed these calculations with three different assumptions as to the percentage of members going on deferred retirement. We assumed eighty, ninety and ninety five percent.

3. The remaining percentage (twenty, ten, or five) of the group described in 2. above 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 salaries projected to age 63.

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

Assets

As part of this study, we need to determine what portion of $788,321,000, the projected October 1, 1996 assets available for contribution rate purposes, would be allocated to the VMC population. To do this we used the allocation of plan assets that was developed in the last study as of June 30, 1994. At that time plan assets used to determine contribution rates were allocated 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. This information has been reproduced below for your convenience. 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	$ 338,652,000
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.

At the time of the last study, 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. We then calculated what percentage of the active members' AAL was applicable to the VMC group, separately for basic and cost-of-living benefits. The percentages developed at that time are shown on the following page:

Allocation of the 6/30/94 Actuarial Accrued Liability

		VMC	COUNTY	TOTAL
1.	Basic (General Only)	17.65%	82.35%	100%
2.	COL (General and Safety)	14.43%	85.57%	100%
3.	Total	N/A	N/A	100%

In the absence of any other information, we assumed that VMC would continue to comprise 17.65% of the Basic AAL and 14.43% of the COL AAL, and we applied these percentages to the appropriate assets to arrive at the asset allocation as of October 1, 1996 between the VMC and the County. The net VMC assets are as follows:

Determination of Estimated VMC Plan Assets
As of October 1, 1996

	Active Members' Assets	Percentage Allocated to VMC	Amount Allocated to VMC
Basic (General)	$ 217,753,000	17.65%	$ 38,433,000
COL (General and Safety)	65,164,000	14.43%	9,403,000
Total	$ 282,917,000		$ 47,836,000

In the table on the following page, we show a brief summary of the VMC employee statistics as of April 7, 1996, with service projected through October 1, 1996. 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	474	$ 14,839,044	$ 1,230,078
More than 5 years of service but not eligible to retire	816	28,375,356	14,679,754
More than 10 years of service and age 50 or older (eligible to retire)	185	6,034,224	6,957,376
Total	1,475	$ 49,248,624	$ 22,867,208

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, 1995. A summary of these assumptions is included in Schedule 1 of the Appendix. In projecting the assets and the liabilities to October 1, 1996, we have assumed no terminations among the active members.

B. Summary of Results

The tables below compare the assets and liabilities for the VMC as projected to October 1, 1996 using the three different assumptions regarding the percentage of members assumed to be deferred and reciprocal.

SCENARIO 1

Comparison of Assets and Accrued Liabilities for the VMC
As of October 1, 1996
Assuming 20% of Eligible Members will be Reciprocal

Assets*

1.	Assets at Book Value excluding 1% Contingency Reserve	$	47,836,000
2.	Employer portion of the 1% Contingency Reserve		478,000
3.	Total Assets as of October 1	$	48,314,000
4.	Active members now eligible to retire		29,933,000
5.	Net Assets available (3.- 4.)	$	18,381,000

Accrued Actuarial Liability for:

6.	Members' contributions to be refunded	$	1,247,000
7.	Deferred and reciprocal benefits		47,524,000
8.	Total Liability	$	48,771,000
9.	Net Unfunded Accrued Actuarial Liability (UAAL) (8.- 5.)	$	30,390,000

* Employer assets are on an estimated basis.

SCENARIO 2

Comparison of Assets and Accrued Liabilities for the VMC
As of October 1, 1996
Assuming 10% of Eligible Members will be Reciprocal

Assets*

1.	Assets at Book Value excluding 1% Contingency Reserve	$	47,836,000
2.	Employer portion of the 1% Contingency Reserve		478,000
3.	Total Assets as of October 1	$	48,314,000
4.	Active members now eligible to retire		29,933,000
5.	Net Assets available (3.- 4.)	$	18,381,000

Accrued Actuarial Liability for:

6.	Members' contributions to be refunded	$	1,247,000
7.	Deferred and reciprocal benefits		45,591,000
8.	Total Liability	$	46,838,000
9.	Net Unfunded Accrued Actuarial Liability (UAAL) (8.- 5.)	$	28,457,000

* Employer assets are on an estimated basis.

SCENARIO 3

Comparison of Assets and Accrued Liabilities for the VMC
As of October 1, 1996
Assuming 5% of Eligible Members will be Reciprocal

Assets*

1.	Assets at Book Value excluding 1% Contingency Reserve	$	47,836,000
2.	Employer portion of the 1% Contingency Reserve		478,000
3.	Total Assets as of October 1	$	48,314,000
4.	Active members now eligible to retire		29,933,000
5.	Net Assets available (3.- 4.)	$	18,381,000

Accrued Actuarial Liability for:

6.	Members' contributions to be refunded	$	1,247,000
7.	Deferred and reciprocal benefits		44,625,000
8.	Total Liability	$	45,872,000
9.	Net Unfunded Accrued Actuarial Liability (UAAL) (8.- 5.)	$	27,491,000

* 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 October 1, 1996. 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 under all three scenarios exceed the net assets available if termination of coverage takes place on October 1, 1996. 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 the current salary inflation assumption of 4.75% per year.

SCENARIO 1

Payment of the Unfunded Accrued Actuarial Liabilities (UAAL) as of October 1, 1996

Unfunded Actuarial Accrued Liability (UAAL)	$	30,390,000
Amount of Payment in First Year		
5 years	$	6,592,000
10 years	$	3,566,000
To June 30, 2010 (current schedule)	$	2,709,000
Expressed as a Level Percentage of Payroll Increasing at 4.75% Per Year		
5 years		13.39%
10 years		7.24%
To June 30, 2010 (current schedule)		5.50%

SCENARIO 2

Payment of the Unfunded Accrued Actuarial Liabilities (UAAL) as of October 1, 1996

Unfunded Actuarial Accrued Liability (UAAL)	$	28,457,000
Amount of Payment in First Year		
5 years	$	6,173,000
10 years	$	3,340,000
To June 30, 2010 (current schedule)	$	2,536,000
Expressed as a Level Percentage of Payroll Increasing at 4.75% Per Year		
5 years		12.53%
10 years		6.78%
To June 30, 2010 (current schedule)		5.15%

SCENARIO 3

Payment of the Unfunded Accrued Actuarial Liabilities (UAAL) as of October 1, 1996

Unfunded Actuarial Accrued Liability (UAAL)	$	27,491,000
Amount of Payment in First Year		
5 years	$	5,963,000
10 years	$	3,226,000
To June 30, 2010 (current schedule)	$	2,450,000
Expressed as a Level Percentage of Payroll Increasing at 4.75% Per Year		
5 years		12.11%
10 years		6.55%
To June 30, 2010 (current schedule)		4.97%

Effect of Golden Handshake on VMC

There are 169 VMC members who are eligible for the golden handshake. If all 169 members were to retire with two additional years of service, then the following additional costs result:

Additional VMC Liability as of October 1, 1996 Due to the Golden Handshake

Actuarial Accrued Liability (AAL)	$	2,994,000
Amount of Payment in First Year		
5 years	$	649,000
10 years	$	351,000
To June 30, 2010 (current schedule)	$	267,000
Expressed as a Level Percentage of Payroll Increasing at 4.75% Per Year*		
5 years		1.32%
10 years		0.71%
To June 30, 2010 (current schedule)		0.54%

* Assumes the salary base remains unchanged.

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. It may be reasonable to assume 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 due to a greater expected number of future retirees.

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.

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 14 years from June 30, 1996.

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 AVERAGE SALARY
OF ACTIVE GENERAL MALE MEMBERS
AS OF APRIL 1996

CURRENT AGE	YEARS OF SERVICE 0-4	5-9	10-14	15-19	20-24	25-29	30 & Over	TOTAL
Below 19	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
20-24	7	1	0	0	0	0	0	8
	22,908	17,568	0	0	0	0	0	22,241
25-29	27	6	0	0	0	0	0	33
	26,172	22,936	0	0	0	0	0	25,584
30-34	33	17	8	0	0	0	0	58
	29,064	28,194	26,147	0	0	0	0	28,407
35-39	26	31	10	5	0	0	0	72
	34,135	31,271	32,626	28,831	0	0	0	32,324
40-44	20	19	14	13	6	0	0	72
	38,554	36,604	46,805	37,706	27,530	0	0	38,572
45-49	11	30	7	13	16	3	0	80
	38,987	35,398	29,415	44,825	36,509	40,376	0	37,309
50-54	8	13	5	7	7	7	0	47
	44,265	39,957	29,647	35,484	41,237	34,677	0	38,332
55-59	2	1	1	0	5	3	0	12
	39,690	38,064	47,088	0	35,290	41,600	0	38,815
60-64	1	2	2	2	1	0	0	8
	39,048	69,108	51,348	19,128	44,592	0	0	45,351
65-69	0	0	0	0	1	0	0	1
	0	0	0	0	19,128	0	0	19,128
70 & Over	0	0	1	0	0	0	0	1
	0	0	35,544	0	0	0	0	35,544
TOTAL	135	120	48	40	36	13	0	392
	32,490	33,809	36,045	37,593	35,504	37,590	0	34,295

BUCK CONSULTANTS

SCHEDULE 3

AGE AND SERVICE DISTRIBUTION WITH ANNUAL AVERAGE SALARY
OF ACTIVE GENERAL FEMALE MEMBERS
AS OF APRIL 1996

CURRENT AGE	YEARS OF SERVICE 0-4	5-9	10-14	15-19	20-24	25-29	30 & Over	TOTAL
Below 19	1	0	0	0	0	0	0	1
	16,200	0	0	0	0	0	0	16,200
20-24	13	1	0	0	0	0	0	14
	21,238	19,836	0	0	0	0	0	21,138
25-29	61	18	0	0	0	0	0	79
	29,000	27,449	0	0	0	0	0	28,647
30-34	60	52	9	0	0	0	0	121
	28,912	31,362	35,583	0	0	0	0	30,461
35-39	68	66	36	20	1	0	0	191
	33,434	31,966	39,628	34,251	32,052	0	0	34,173
40-44	63	71	44	37	19	0	0	234
	32,405	35,063	43,003	36,868	35,392	0	0	36,152
45-49	41	53	44	31	23	8	0	200
	33,570	31,683	39,528	36,492	35,329	32,241	0	34,983
50-54	21	35	25	20	12	7	0	120
	30,723	32,032	30,171	33,168	32,382	43,629	0	32,316
55-59	8	25	14	21	12	3	0	83
	31,920	30,219	27,788	32,331	31,664	48,384	0	31,373
60-64	3	7	6	10	3	6	0	35
	21,648	26,047	25,472	32,232	20,356	31,684	0	27,817
65-69	0	1	3	1	0	0	0	5
	0	18,540	19,232	28,908	0	0	0	21,029
70 & Over	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
TOTAL	339	329	181	140	70	24	0	1,083
	30,835	31,917	37,194	34,814	33,524	37,441	0	33,061