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July 31, 2014

PRIVATE

Ms. Susan Giangrande
Budget Manager
City of Newport Beach
One Civic Center Drive
Newport Beach, CA 92660

Re: GASB Actuarial Valuation

Dear Ms. Giangrande:

We are presenting our report of the June 30, 2013 actuarial valuation conducted on behalf of the City of Newport Beach (the "City") for its retiree health program.

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

The Nyhart Company is an employee owned actuarial, benefits and compensation consulting firm specializing in group health and retiree health and qualified pension plan valuations. We have set forth the results of our study in this report.

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

Sincerely,
NYHART

Marilyn K Jones, ASA, MAAA, EA, FCA
Consulting Actuary

MKJ:rl
Enclosure

City of Newport Beach

Actuarial Valuation
Retiree Health Program
As of June 30, 2013

July 2014

Prepared By:

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City of Newport Beach
Actuarial Valuation
Retiree Health Program
As of June 30, 2013

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SECTION I. EXECUTIVE SUMMARY

Background

The City of Newport Beach (the "City") selected Nyhart to perform an actuarial valuation of its retiree health program. The purpose of the actuarial valuation is to measure the City's liability for retiree health benefits and to estimate the City's accounting requirements for other post-employment benefits (OPEB) under Governmental Accounting Standards Board Statements No. 43 & 45 (GASB 43 and GASB 45). GASB 45 requires accrual accounting for the expensing of OPEB. The expense is generally accrued over the working career of employees, rather than on a pay-as-you-go basis. GASB 43 requires additional financial disclosure requirements for funded OPEB Plans.

Effective January 1, 2006, the City implemented a Retiree Health Savings program (RHS Plan) for all new full-time employees and for full-time employees whose age plus years of service as of January 1, 2006 was less than 46 for public safety employees and 50 for all other employees. A Hybrid Plan was provided for full-time active employees whose age plus years of service as of January 1, 2006 was 46 or more for public safety employees and 50 or more for all other employees (unless opting into the RHS Plan). Employees in the Hybrid Plan continue to be eligible to receive the City's fixed dollar contribution under the prior defined benefit plan at retirement but the contribution is paid into the employee's RHS account. Employees already retired and eligible for a City contribution at January 1, 2006 also continue to receive the City's fixed dollar contribution under the prior defined benefit plan but instead of being applied towards medical coverage, the fixed dollar contribution amount less the PEMHCA minimum required employer contribution for those continuing coverage through PEMHCA is made to an RHS account established for the retiree. Part-time employees retiring from the City can elect to continue medical coverage through PEMHCA and receive a City contribution equal to the PEMHCA minimum required employer contribution. A full description of the City's plan is provided in Section IV.

As of the valuation date there are 502 retirees receiving the City's flat dollar contribution plus 33 retirees receiving the PEMHCA minimum required contribution. There are also 142 employees under the Hybrid Plan eligible to receive the City's flat dollar contribution in the future if retiring from the City. In addition, there are 67 part-time employees who may become eligible to continue coverage through PEMHCA at retirement. The remaining 563 employees participate in the RHS Plan. The City may be responsible for the PEMHCA minimum required contribution if these employees retire from the City and continue coverage under PEMHCA.

Results of the Retiree Health Valuation

The amount of the actuarial liability for the City's retiree health benefits program as of June 30, 2013, the measurement date, is $38,001,354. This amount is based on a discount rate of 7.25% which assumes the City continues to pre-fund its annual required contribution through the California Employers' Retiree Benefits Trust. The amount represents the present value of all contributions for retiree health benefits projected to be paid by the City for current and future retirees. If the City were to place this amount in a fund earning interest at the rate of 7.25% per year, and all other actuarial assumptions were met, the fund would have enough to pay all expected contributions for retiree health benefits. This includes contributions for retiree health benefits for the current retirees as well as the current active employees expected to retire in the future. The valuation does not consider employees not yet hired as of the valuation date.

If the amount of the actuarial liability is apportioned into past service, current service and future service components; the past service component (actuarial accrued liability) is $35,563,794, the current service component (normal cost or current year accrual) is $347,465 and the future service component (not yet accrued liability) is $2,090,095.

Changes from Prior Valuation

The results of the valuation reflect updated census and premium information as well as several assumption changes as noted in Section VII. A reconciliation of the approximate changes in the liability from the prior valuation is provided below:

June 30, 2011 Valuation @7.25%	**$39.7 M**
Increase due to passage of time	0.4 M
Net experience decrease (primarily due to employees opting into the RHS Only Plan and the PEMHCA minimum increasing less than assumed)	(2.5 M)
Increase due to new entrants	0.4 M
Net increase due to updates to the CalPERS mortality, disability, salary and retirement rates	0.6 M
Decrease due to assumed MRC future increases lowered from 4.5% to 4%.	(0.6 M)
Increase due to change in assumed PEMHCA participation rates	0.2 M
Decrease due to change in spouse coverage rate	(0.2 M)
June 30, 2013 Valuation @7.25%	**$38.0 M**

Annual Required Contribution

The City's annual required contribution (accrual expense) for the 2014/2015 fiscal year is $2,611,805 (net of Hybrid Plan contribution made by active employees). The annual required contribution is comprised of the present value of benefits accruing in the current fiscal year (normal cost with interest) plus a 13-year amortization (on a level-percentage of pay basis) of the unfunded actuarial accrued liability. Thus, it represents a means to expense the plan's liabilities in an orderly manner. The change in the net OPEB obligation/(asset) at the end of the fiscal year will reflect any actual contributions made by the City during the period for retiree health benefits including any pre-funding amounts.

Funding

The City's funding policy is to fund 100% of the annual required contribution as determined under GASB 45 through the California Employers' Retiree Benefit Trust (CERBT). The actuarial value of assets in the CERBT as of June 30, 2013 is $9,979,067. The unfunded actuarial accrued liability at June 30, 2013 is $25,584,727. The funded ratio is 28% at June 30, 2013.

The CERBT provides participating employers with the choice of three investment allocation strategies. The expected rate of return of assets is dependent on the funding strategy of a participating employer and which investment allocation strategy is selected. For employers fully funding their annual required contribution, strategy 1 has a CERBT published median yield of 7.61%, strategy 2 has a published median yield of 7.06% and strategy 3 has a published median yield of 6.39%. The valuation was performed using a 7.25% discount rate assuming the City remains in strategy 1 for the 2014/2015 and 2015/2016 fiscal years and assumes a 0.36% additional margin for adverse deviation applied to the CERBT stated median discount rate.

Actuarial Basis

The actuarial valuation is based on the assumptions and methods outlined in Section VI of the report. To the extent that a single or a combination of assumptions is not met the future liability may fluctuate significantly from its current measurement. As an example, the healthcare cost increase anticipates that the rate of increase in medical cost will be at moderate levels and decline over several years. Increases higher than assumed would bring larger liabilities and expensing requirements. A 1% increase in the healthcare trend rate for each future year would increase the annual required contribution by 6%. The impact is mitigated because the City's contribution for most retirees is a flat dollar amount and not subject to future increases unless the retiree is covered under PEMHCA and the PEMHCA minimum contribution exceeds the flat dollar amount in the future.

Another key assumption used in the valuation is the discount (interest) rate which is based on the expected rate of return of plan assets. The valuation is based on a discount rate of 7.25%. A 0.5% decrease in the discount rate would increase the annual required contribution by 6%. A 0.5% increase in the discount rate would decrease the annual required contribution by 7%.

GASB 45 requires that implicit rate subsidies be considered in the valuation of medical costs. An implicit rate subsidy can exist when the non-Medicare rates for retirees are the same as for active employees. Since non-Medicare eligible retirees are typically much older than active employees, their actual medical costs are typically higher than for active employees. It is our understanding that the City participates in a community-rated health plan through PEMHCA. The rate subsidy for employers participating in PEMHCA has typically not been included in valuations on the assumption that participating employers are eligible for the GASB exemption applicable to community-rated plans. Typically, inclusion of the implied rate subsidy will result in significantly larger liabilities and expensing requirements. To date the City's specific experience data in aggregate or split by actives and retirees is not available through PEMHCA. Alternative results including an estimate of the liability associated with the implied rate subsidy has been provided in Section II-L and the impact (increase) is shown below. The impact was determined estimating the rate subsidy amount using health cost factors based on age and the City's current active and retired populations. The valuation assumes that any implied rate subsidy for Medicare rates is not a City liability but paid by the Medicare retirees.

	Increase Due to Estimated Implied Rate Subsidy
Actuarial Liability (AL):	$14,949,039
Actuarial Accrued Liability (AAL):	$10,732,395
Annual Required Contribution (ARC):	$ 1,329,108
Expected Subsidy Paid Thru Active Premiums:	$ 709,740

The valuation is based on the census, plan and rate information provided by the City. To the extent that the data provided lacks clarity in interpretation or is missing relevant information, this can result in liabilities different than those presented in the report. Often missing or unclear information is not identified until future valuations.

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SECTION II. FINANCIAL RESULTS

A. Valuation Results as of June 30, 2013

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

	Miscellaneous	Safety	Total
1. Actuarial Liability (AL)			
Actives	$ 5,714,379	$ 3,252,509	$ 8,966,888
Retirees	14,295,543	14,738,923	29,034,466
Total AL	$20,009,922	$17,991,432	$38,001,354
2. Actuarial Accrued Liability (AAL)			
Actives	$ 4,352,369	$ 2,176,959	$ 6,529,328
Retirees	14,295,543	14,738,923	29,034,466
Total AAL	$18,647,912	$16,915,882	$35,563,794
3. Normal Cost	$214,639	$132,826	$347,465
No. of Active Employees	505	267	772
Average Age	44.2	38.3	42.2
Average Past Service	11.1	10.7	10.9
No. of Retired Employees*	258	244	502
Average Age	68.2	64.0	66.2
Average Retirement Age	57.7	51.5	54.7

* Excludes 94 retirees waiving coverage through PEMHCA and not eligible for the $400 monthly contribution.

B. Reconciliation of Market Value of Plan Assets

The reconciliation of Plan Assets for the last four fiscal years is presented below:

	6/30/2010	6/30/2011	6/30/2012	6/30/2013
1. Beginning Market Value of Assets	$6,321,615	$6,789,400	$8,240,851	$ 8,146,021
2. Contribution	2,016,000	2,128,000	2,314,000	3,051,000
3. Fund Earnings (gross)	1,048,610	1,757,986	144,158	1,026,517
4. Benefit Payments	(2,589,040)	(2,424,001)	(2,542,050)	(1,577,434)
5. Administrative Expenses	(7,785)	(10,534)	(10,938)	(13,701)
6. Ending Market Value of Assets	$6,789,400	$8,240,851	$8,146,021	$10,632,403
7. Estimated Gross Rate of Return	17%	26%	2%	12%

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C. Development of Actuarial Value of Assets

The actuarial value of assets is based on the expected market value appreciation. The actual market appreciation or depreciation, both realized and unrealized, is phased in over five years as the expected growth is phased out. The table below presents the development of the actuarial value of assets.

		6/30/2010	6/30/2011	6/30/2012	6/30/2013	
1	Market value of assets					$10,632,403
2	Actual gross rate of return	17.39%	26.49%	1.78%	11.57%	
3	Expected rate of return	7.75%	7.75%	7.25%	7.25%	
4	Actual fund earnings	$1,048,610	$1,757,986	$144,158	$1,026,517	$ 3,977,271
5	Expected fund earnings	467,418	514,300	588,798	643,507	2,214,023
6	Gain(loss) [(4) - (5)]	581,192	1,243,686	(444,640)	383,011	
7	Percent of gain/(loss) recognized 6/30/2013	80%	60%	40%	20%	
8	Recognized gain/(loss) [(6) x (7)]	464,954	746,212	(177,856)	76,602	1,109,912
9.	Blended value of assets at 6/30/2013 [(1) - (4) + (5) + (8)]					$ 9,979,067
10.	Percent increase/(decrease) of (9) over (1)					(6.1%)
11.	Actuarial value of assets, not more than 120% nor less than 80% of market value					$ 9,979,067

D. Development of Unfunded Actuarial Accrued Liability (UAAL) @ June 30, 2013

The table below presents the development of the unfunded actuarial accrued liability (UAAL). The UAAL is the excess of the actuarial accrued liability (AAL) over the actuarial value of eligible plan assets.

1. Actuarial Accrued Liability (AAL)	$35,563,794
2. Actuarial Value of Assets	(9,979,067)
3. Unfunded AAL (UAAL)	$25,584,727

E. Projected Actuarial Value of Assets @June 30, 2014

The table below presents the development of the expected actuarial value of assets at June 30, 2014 for purposes of developing the annual required contribution.

1. Actuarial Value of Assets at June 30, 2013	$ 9,979,067
2. Expected Fund Earnings @7.25%	747,995
3. Expected Employer Contributions*	4,881,000
4. Expected Benefit Payments & Expenses*	(2,704,796)
5. Projected Actuarial Value of Assets at June 30, 2014	$12,903,266

* Based actual amounts which were available prior to valuation completion date.

F. Projected Unfunded Actuarial Accrued Liability (UAAL) at June 30, 2014

The table below presents the projected unfunded actuarial accrued liability at June 30, 2014 for the determination of the annual required contribution.

1. Projected AAL	$35,789,244
2. Actuarial Value of Assets	(12,903,266)
3. Unfunded AAL (UAAL)	$22,885,978

G. Amortization of Unfunded Actuarial Accrued Liability (UAAL)

The amortization of the UAAL component of the annual required contribution (ARC) is being amortized on a level-percentage of pay basis. Under the level-percentage of pay method, the amortization payment is scheduled to increase in future years based on wage inflation.

1. Unfunded AAL (UAAL)	$22,885,978
2. Amortization Factor	9.619316
3. Amortization of UAAL	$ 2,379,169

H. Annual Required Contribution (ARC)

The table below presents the development of the annual required contribution ARC for the fiscal year ending June 30, 2015 and estimated for the fiscal year ending June 30, 2016.

	2014/2015	2015/2016
1. Normal Cost at End of Year	$ 383,836	$ 395,351
2. Amortization of UAAL at End of Year	2,379,169	2,450,544
3. Annual Required Contribution (ARC)	$ 2,763,005	$2,845,895
4. Expected Hybrid Employee Contributions	(151,200)	(133,200)
5. City ARC	$ 2,611,805	$2,712,695
6. Expected Payroll	$67,149,000	$69,163,000
7. City ARC as % of Payroll	3.9%	3.9%

I. Required Supplementary Information (Funding Progress @6/30/2013)

The table below presents a sample disclosure of the funding progress as of the beginning of the fiscal year.

1. Actuarial Accrued Liability (AAL)	$35,563,794
2. Actuarial Valuation of Assets (AVA)	(9,979,067)
3. Unfunded Actuarial Accrued Liability	$25,584,727
4. Funded Ratio	43%
5. Current Payroll	65,193,000
6. Unfunded Actuarial Accrued Liability as Percentage of Payroll	39%

J. Estimated Net OPEB Obligation at June 30, 2015 and June 30, 2016

The table below shows an estimate of the net OPEB obligation/(asset) at the end of the current fiscal year assuming the City contributes at the annual required contribution net of benefits paid by the end of the fiscal year and that the City's net OPEB obligation/(asset) at June 30, 2013 is ($1,500,000) as developed below:

	2013/2014	2014/2015	2015/2016
1. Annual Required Contribution (ARC)	$3,381,000	$2,611,805	$2,712,695
2. Interest on Net OPEB Obligation	0	(108,750)	(105,329)
3. Adjustment to ARC	(0)	155,936	160,614
4. Annual OPEB Cost	$3,381,000	$2,658,991	$2,767,980
5. Estimated City Contributions Made	(4,881,000)	(2,611,805)	(2,712,695)
6. Increase in Net OPEB Obligation	($1,500,000)	$ 47,186	$ 55,285
7. Net OPEB Obligation – Beginning of Fiscal Year	0	(1,500,000)	(1,452,814)
8. Net OPEB Obligation – End of Fiscal Year	($1,500,000)	($1,452,814)	($1,397,529)

K. Sensitivity Analysis:

1. The impact of a 0.5% decrease in the discount (interest) rate on the City's total actuarial liability, actuarial accrued liability, unfunded actuarial accrued liability and the annual required contribution is provided below:

	Dollar ($) Increase	Percentage (%) Increase
- Actuarial Liability	$2,248,598	6%
- Actuarial Accrued Liability	$1,850,763	5%
- Unfunded Actuarial Accrued Liability	$1,850,763	7%
- Annual Required Contribution	$ 160,714	6%

2. The impact of a 0.5% increase in the discount (interest) rate on the City's total actuarial liability, actuarial accrued liability, unfunded actuarial accrued liability and the annual required contribution is provided below:

	Dollar ($) Decrease	Percentage (%) Decrease
- Actuarial Liability	($2,023,758)	(5%)
- Actuarial Accrued Liability	($1,692,794)	(5%)
- Unfunded Actuarial Accrued Liability	($1,692,794)	(7%)
- Annual Required Contribution	($ 183,463)	(7%)

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

	Dollar ($) Increase	Percentage (%) Increase
- Actuarial Liability	$1,478,219	4%
- Actuarial Accrued Liability	$ 952,246	3%
- Unfunded Actuarial Accrued Liability	$ 952,246	4%
- Annual Required Contribution	$ 149,327	6%

L. Alternative Results: Inclusion of Implied Rate Subsidy Estimate

The table below shows the impact on the liability and annual required contribution of including an estimate of the implied rate subsidy.

As of June 30, 2013	Explicit Contribution	Implied Rate Subsidy	Total
1. Actuarial Liability (AL)			
Actives	$ 8,966,888	$ 9,025,235	$17,992,123
Retirees	29,034,466	5,923,804	34,958,270
Total AL	$38,001,354	$14,949,039	$52,950,393
2. Actuarial Accrued Liability (AAL)			
Actives	$ 6,529,328	$ 4,808,591	$11,337,919
Retirees	29,034,466	5,923,804	34,958,270
Total AAL	$35,563,794	$10,732,395	$46,296,189
3. Actuarial Value of Assets	(9,979,067)	(0)	(9,979,067)
4. Unfunded AAL (UAAL)	$25,584,727	$10,732,395	$36,317,122
Projected to June 30, 2014			
1. Actuarial Accrued Liability (AAL)	$35,789,244	$10,813,475	$46,602,719
2. Actuarial Value of Assets	(12,903,266)	(0)	(12,903,266)
3. Unfunded AAL (UAAL)	$22,885,978	$10,813,475	$33,669,453
4. Amortization Factor	9.619316	11.611186	10.179667
5. Amortization of UAAL	$ 2,379,169	$ 931,298	$ 3,310,467
2014/2015 Annual Required Contribution			
1. Normal Cost at End of Year	$ 383,836	$ 397,810	$ 781,646
2. Amortization of UAAL at End of Year	2,379,169	931,298	3,310,467
3. Annual Required Contribution (ARC)	$ 2,763,005	$ 1,329,108	$ 4,092,113
4. Expected Hybrid Employee Contributions	(151,200)	(0)	(151,200)
5. City ARC	$ 2,611,805	$ 1,329,108	$ 3,940,913
6. Expected Payroll	$67,149,000	$67,149,000	$67,149,000
7. City ARC as % of Payroll	3.9%	2.0%	5.9%
2015/2016 Annual Required Contribution			
1. Normal Cost at End of Year	$ 395,351	$ 409,744	$ 805,095
2. Amortization of UAAL at End of Year	2,450,544	959,237	3,409,781
3. Annual Required Contribution (ARC)	$ 2,845,895	$ 1,368,981	$ 4,214,876
4. Expected Hybrid Employee Contributions	(133,200)	(0)	(133,200)
5. City ARC	$ 2,712,695	$ 1,368,981	$ 4,081,676
6. Expected Payroll	$69,163,000	$69,163,000	$69,163,000
7. City ARC as % of Payroll	3.9%	2.0%	5.9%

SECTION III. PROJECTED CASH FLOWS

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

The expected cash flows for selected future years are provided in the table on the following page. These cash flows do not reflect the employee contributions that will be paid by Hybrid Plan active employees in future years. The estimated implied subsidies are also provided.

Projected Cash Flows – Representative Years

Fiscal Year	Direct City Contributions Future Retirees	Retired Employees	Total	Implied Subsidy
2014/15	$ 146,158	$ 2,538,652	$ 2,684,810	$ 709,740
2015/16	$ 222,136	$ 2,521,016	$ 2,743,152	$ 734,952
2016/17	$ 295,028	$ 2,502,071	$ 2,797,099	$ 811,167
2017/18	$ 368,174	$ 2,482,085	$ 2,850,259	$ 820,528
2018/19	$ 435,473	$ 2,460,161	$ 2,895,634	$ 833,472
2019/20	$ 497,069	$ 2,437,857	$ 2,934,926	$ 846,698
2020/21	$ 552,649	$ 2,412,855	$ 2,965,504	$ 910,045
2021/22	$ 602,882	$ 2,384,642	$ 2,987,524	$ 949,328
2022/23	$ 647,910	$ 2,354,403	$ 3,002,313	$ 884,989
2023/24	$ 686,166	$ 2,322,040	$ 3,008,206	$ 889,862
2024/25	$ 718,418	$ 2,288,200	$ 3,006,618	$ 891,552
2025/26	$ 748,359	$ 2,250,309	$ 2,998,668	$ 864,328
2026/27	$ 776,750	$ 2,210,635	$ 2,987,385	$ 858,539
2027/28	$ 801,529	$ 2,167,434	$ 2,968,963	$ 850,405
2028/29	$ 825,329	$ 2,120,436	$ 2,945,765	$ 848,158
2029/30	$ 849,267	$ 2,071,268	$ 2,920,535	$ 810,029
2030/31	$ 873,052	$ 2,018,874	$ 2,891,926	$ 733,939
2031/32	$ 896,564	$ 1,962,321	$ 2,858,885	$ 695,766
2032/33	$ 920,514	$ 1,904,019	$ 2,824,533	$ 623,446
2033/34	$ 943,539	$ 1,841,406	$ 2,784,945	$ 604,894
2034/35	$ 966,915	$ 1,774,987	$ 2,741,902	$ 633,931
2035/36	$ 990,065	$ 1,705,869	$ 2,695,934	$ 649,730
2036/37	$ 1,012,239	$ 1,634,104	$ 2,646,343	$ 654,602
2037/38	$ 1,033,637	$ 1,558,117	$ 2,591,754	$ 697,516
2038/39	$ 1,053,648	$ 1,479,155	$ 2,532,803	$ 750,600
2039/40	$ 1,071,297	$ 1,397,474	$ 2,468,771	$ 800,381
2040/41	$ 1,086,236	$ 1,314,155	$ 2,400,391	$ 770,792
2041/42	$ 1,098,560	$ 1,228,299	$ 2,326,859	$ 824,579
2042/43	$ 1,108,403	$ 1,141,188	$ 2,249,591	$ 869,548
2043/44	$ 1,115,800	$ 1,053,520	$ 2,169,320	$ 851,983
2044/45	$ 1,120,530	$ 966,054	$ 2,086,584	$ 758,335
2045/46	$ 1,126,881	$ 884,659	$ 2,011,540	$ 739,665
2050/51	$ 1,180,221	$ 540,351	$ 1,720,572	$ 295,445
2055/56	$ 1,145,599	$ 265,264	$ 1,410,863	$ 20,286
2060/61	$ 1,041,871	$ 101,513	$ 1,143,384	$ 0
2065/66	$ 921,472	$ 31,781	$ 953,253	$ 0
2070/71	$ 823,896	$ 9,113	$ 833,009	$ 0
2075/76	$ 748,239	$ 2,252	$ 750,491	$ 0
2080/81	$ 688,860	$ 309	$ 689,169	$ 0
2085/86	$ 653,315	$ 0	$ 653,315	$ 0
2090/91	$ 565,285	$ 0	$ 565,285	$ 0
2095/96	$ 511,382	$ 0	$ 511,382	$ 0
2100/01	$ 0	$ 0	$ 0	$ 0
All Years	$73,002,409	$70,319,315	$143,321,724	$28,976,006

SECTION IV. BENEFIT PLAN PROVISIONS

This study analyzes the post-retirement health benefits provided by the City. Currently, eligible active employees are offered a choice of medical (including prescription drug coverage) plans through the CalPERS Health Program under the Public Employees' Medical and Hospital Care Act (PEMHCA). The City offers the same medical plans to eligible retirees except once a retiree is eligible for Medicare, the retiree must join a Medicare HMO or Supplement Plan with Medicare being the primary payer.

Prior to January 1, 2006, the City sponsored a defined benefit healthcare plan which provided a fixed dollar contribution towards the cost of medical coverage for eligible employees continuing medical coverage through PEMHCA at retirement. The City's contribution varied by employee group (up to a maximum of $450 per month for Police employees and $400 for all other employees).

Effective January 1, 2006, the City implemented a Retiree Health Savings program (RHS) for all new full-time employees (Category 1) and for full-time employees whose age plus service as of January 1, 2006 was less than 46 for public safety employees and 50 for all other employees (Category 2). Full-time active employees whose age plus service as of January 1, 2006 was 46 or more for public safety employees and 50 or more for all other employees (Category 3) continued to be eligible to receive the City's fixed dollar contribution under the prior defined benefit plan at retirement but the contribution is paid into the employee's RHS account. Employees already retired and eligible for a City contribution at January 1, 2006 (Category 4) continued to receive the City's contribution under the prior defined benefit plan but instead of being applied towards medical coverage, the fixed dollar contribution amount less the minimum required employer PEMHCA contribution for those continuing coverage through PEMHCA is made to an RHS account established for the retiree. Employees in Category 3 could make a one-time election to be treated similarly to Category 2 employee with those not electing remaining in a Hybrid Plan (includes both the City's fixed dollar contribution but also some components of the RHS Plan). A description of the funding components is outlined in the chart on the following page.

The RHS is a Health Reimbursement Arrangement (HRA) sponsored by the City which reimburses a participant for post-employment medical (PEMHCA plan) dental, vision, long-term care, miscellaneous medical expenses, and the PEMHCA minimum. In general, the RHS is a defined contribution program sponsored by the City with several funding components as outlined in the table on the following page. Any balance in the employee's RHS account after the death of the employee and eligible spouse and dependents will be forfeited.

Part-time employees can continue medical coverage through PEMHCA and receive the PEMHCA minimum required contribution from the City which is scheduled to increase in the future based on the medical portion of CPI. A history of the increases in past years and current amounts are as follows:

Calendar Year	Minimum Required Employer Contribution
2007	$80.80
2008	$97.00
2009	$101.00
2010	$105.00
2011	$108.00
2012	$112.00
2013	$115.00
2014	$119.00
2015	$122.00
2015+	Adjusted Annually to reflect Medical Portion of CPI

In general, the RHS is a defined contribution program sponsored by the City with the following funding components:

	Category 1	Category 2	Category 3*	Category 4
Part A – Pre-Retirement Employee Contributions	o 1% of base pay mandatory contribution o effective immediately upon employment	o 1% of base pay mandatory contribution o effective January 1, 2006	o 1% of base pay mandatory contribution o effective January 1, 2006	None
Part B – Pre-Retirement City Contributions:	o City contributes $2.50 per month for each year of age plus service during employment o effective upon 5 years of vesting service; immediate vesting for industrial disability o retroactively deposited; biweekly thereafter	o City contributes $2.50 per month for each year of age plus service during employment o effective upon 5 years of vesting service; immediate vesting for industrial disability o retroactively deposited; biweekly thereafter	None	None
Part C – Leave Conversion:	o mandatory transfer of a portion of accumulated leave during any leave buyout o amount of leave conversion varies by bargaining unit & subject to negotiation o not payable in cash	o mandatory transfer of a portion of accumulated leave during any leave buyout o amount of leave conversion varies by bargaining unit & subject to negotiation o not payable in cash	o mandatory transfer of a portion of accumulated leave during any leave buyout o amount of leave conversion varies by bargaining unit & subject to negotiation o not payable in cash	
Part D – Conversion Contribution:	None	o For fully converted employees who retire from the plan only o City will make a one-time contribution of $100 per month the employee contributed to the plan prior to January 1, 2006 with a cap of $18,000	o City will make a one-time contribution of $75 per month the employee contributed to the plan January 1, 2006 with a cap of $13,500	
Part E – Post Retirement Contribution	o City will provide the PEMHCA minimum contribution when a retiree's RHS account value has been exhausted	o City will provide the PEMHCA minimum contribution when a retiree's RHS account value has been exhausted	o City will contribute $400 per month ($450 for Police employees retiring prior to January 1, 2006)	o City will contribute $400 per month ($450 for Police employees) to retiree's or surviving spouse's RHS account
Part F – Other Pre-Retirement Employee Contributions:	None	None	o Active full-time employees are required to make a contribution of $100 per month	None

*Employees making a one-time election into the RHS Plan are treated as Category 2 employees.

Premium Costs

The City participates in the CalPERS Health Program, a community-rated program for its medical coverage. The following tables summarize the 2013 and 2014 monthly premiums for the primary medical plans in which the retirees are enrolled.

2013 Other So. Cal. Region (unless noted)	Kaiser	BS HMO	BS NVP HMO	PERS Care	PERS Choice	PERS Choice OOS
Retiree Only	$558.95	$643.93	$550.03	$992.61	$611.30	$754.21
Retiree Plus Spouse	$1,117.90	$1,287.86	$1,100.06	$1,985.22	$1,222.60	$1,508.42
Retiree Only- Medicare	$288.37	$261.32	$261.32	$370.43	$325.74	$325.74
Retiree Plus Spouse – Medicare	$576.74	$522.64	$522.64	$740.86	$651.48	$651.48
Retiree Plus Spouse – Mixed	$847.32	$905.25	$811.35	$1,363.04	$937.04	$1,079.95

2014 Other So. Cal. Region (unless noted)	Kaiser	BS HMO	BS NVP HMO	PERS Care	PERS Choice	PERS Choice OOS
Retiree Only	$602.79	$543.21	$457.17	$638.22	$612.25	$706.40
Retiree Plus Spouse	$1,205.58	$1,086.42	$914.34	$1,276.44	$1,224.50	$1,412.80
Retiree Only- Medicare	$294.97	$298.21	$298.21	$327.36	$307.23	$307.23
Retiree Plus Spouse – Medicare	$589.94	$596.42	$596.42	$654.72	$614.46	$614.46
Retiree Plus Spouse – Mixed	$897.76	$841.42	$755.38	$965.58	$919.48	$1,013.63

00S = Out-of-State

SECTION V. VALUATION DATA

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

Age Distribution of Eligible Retired Participants & Beneficiaries

	Miscellaneous	Safety	Total*	MRC Only	Waives	Grand Total
<50	1	7	8	2	11	21
50-54	14	24	38	7	4	49
55-59	39	52	91	12	3	106
60-64	53	62	115	5	7	127
65-69	57	49	106	2	13	121
70-74	32	25	57	4	10	71
75-79	29	17	46	1	11	58
80+	33	8	41	0	35	76
Total:	258	244	502	33	94	629
Average Age:	68.2	64.0	66.2	59.2	72.4	66.7
Average Retirement Age:	57.7	51.5	54.7	54.8	51.1	54.2

* Note: Currently receiving the $400 or $450 per month contribution.

Age/Service Distribution of All Active Benefit Eligible Employees

Age	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	Total	Hybrid Plan	RHS Plan	Part Time
20-24	13	2								15	0	8	7
25-29	55	38								93	0	78	15
30-34	36	65	29	1						131	0	124	7
35-39	14	45	37	8						104	0	101	3
40-44	12	26	41	15	8	2				104	1	97	6
45-49	13	23	26	18	40	17	1			138	37	93	8
50-54	6	11	18	11	20	25	4	0		95	52	37	6
55-59	11	8	10	9	7	8	3	0	1	57	32	18	7
60-64	1	5	4	4	1	3	1	1	0	20	11	7	2
65-69	1	3	1	1	2	2	1	0	1	12	8	0	4
70+	1	0	1	0	0	1	0	0	0	3	1	0	2
Total:	163	226	167	67	78	58	10	1	2	772	142	563	67
Average Age										42.2	54.0	39.2	41.9
Average Service										10.9	22.0	8.5	8.4

Age/Service Distribution of Benefit Eligible Miscellaneous Employees

Age	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	Total	Hybrid Plan	RHS Plan	Part Time
20-24	8	2								10	0	3	7
25-29	25	21								46	0	31	15
30-34	18	39	14							71	0	65	6
35-39	11	22	21	5						59	0	56	3
40-44	10	15	26	8	4					63	1	58	4
45-49	11	21	18	12	21	10				93	16	69	8
50-54	5	11	16	8	16	17	4			77	36	35	6
55-59	9	8	10	8	7	7	2			51	28	16	7
60-64	1	5	4	4	1	3	1	1		20	11	7	2
65-69	1	3	1	1	2	2	1	0	1	12	8	0	4
70+	1	0	1	0	0	1	0	0	0	3	1	0	2
Total:	100	147	111	46	51	40	8	1	1	505	101	340	64
Average Age										44.2	55.4	41.3	42.0
Average Service										11.1	21.4	8.6	7.9

Age/Service Distribution of Benefit Eligible Safety Employees

Age	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	Total	Hybrid Plan	RHS Plan	Part Time
20-24	5									5	0	5	0
25-29	30	17								47	0	47	0
30-34	18	26	15	1						60	0	59	1
35-39	3	23	16	3						45	0	45	0
40-44	2	11	15	7	4	2				41	0	39	2
45-49	2	2	8	6	19	7	1			45	21	24	0
50-54	1	0	2	3	4	8	0	0		18	16	2	0
55-59	2	0	0	1	0	1	1	0	1	6	4	2	0
60-64	0	0	0	0	0	0		0	0	0	0	0	0
65-69	0	0	0	0	0	0	0	0	0	0	0	0	0
70+	0	0	0	0	0	0	0	0	0	0	0	0	0
Total:	63	79	56	21	27	18	2	0	1	267	41	223	3
Average Age										38.3	50.5	36.1	39.7
Average Service										10.7	23.2	8.3	14.5

SECTION VI. ACTUARIAL ASSUMPTIONS AND METHODS

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

Measurement Date: June 30, 2013

Fiscal Year: July 1st to June 30th

Fiscal Years Covered: Fiscal Year Ending June 30, 2015 & Fiscal Year Ending June 30, 2016 – 1 Year Lag Period

Discount Rate: 7.25% for cash subsidy, pre-funded through CERBT strategy 1

4.25% for PEMHCA implied subsidy sensitivity, no pre-funding

Inflation: 2.8% per annum

[The prior valuation assumed 3.0%]

Salary Increases: 3.0% per annum, in aggregate. For cost method purposes the merit increases from the CalPERS pension plan will be use

[The prior valuation assumed 3.25%, in aggregate]

Pre-retirement Turnover: According to the termination rates under the CalPERS pension plan. Sample rates for Miscellaneous employees are as follows:

	Entry Age			
Service	20	30	40	50
0	17.42%	16.06%	14.68%	13.32%
5	8.68%	7.11%	5.54%	0.97%
10	6.68%	5.07%	0.71%	0.38%
15	5.03%	3.47%	0.23%	0.04%
20	3.70%	0.21%	0.05%	0.01%
25	2.29%	0.05%	0.01%	0.01%
30	0.05%	0.01%	0.01%	0.01%

Sample rates for Firefighter employees are as follows:

	Entry Age			
Service	20	30	40	50
0	9.5%	9.5%	9.5%	9.5%
5	2.6%	2.6%	2.6%	1.0%
10	0.9%	0.9%	0.3%	0.3%
15	0.8%	0.8%	0.2%	0.2%
20	0.7%	0.2%	0.2%	0.2%
25	0.6%	0.1%	0.1%	0.1%
30	0.1%	0.1%	0.1%	0.1%

Sample rates for Safety employees are as follows:

	Entry Age			
Service	20	30	40	50
0	10.1%	10.1%	10.1%	10.1%
5	2.5%	2.5%	2.5%	0.9%
10	1.8%	1.8%	0.5%	0.5%
15	1.1%	1.1%	0.3%	0.3%
20	0.8%	0.2%	0.2%	0.2%
25	0.7%	0.1%	0.1%	0.1%
30	0.1%	0.1%	0.1%	0.1%

Pre-retirement Mortality: According to the pre-retirement mortality rates under the CalPERS pension plan updated to reflect the most recent experience study. Sample deaths per 1,000 employees applicable to Miscellaneous employees are as follows:

Age	Males	Females
25	0.4	0.2
30	0.5	0.3
35	0.6	0.4
40	0.8	0.5
45	1.1	0.7
50	1.6	1.0
55	2.3	1.4
60	3.1	1.8

Sample deaths per 1,000 employees applicable to Firefighter employees are as follows:

Age	Males	Females
25	0.4	0.2
30	0.5	0.3
35	0.6	0.4
40	0.8	0.5
45	1.1	0.7
50	1.6	1.0
55	2.3	1.4
60	3.1	1.8

Sample deaths per 1,000 employees applicable to Police employees are as follows:

Age	Males	Females
25	0.4	0.2
30	0.5	0.3
35	0.6	0.4
40	0.8	0.5
45	1.1	0.7
50	1.6	1.0
55	2.3	1.4
60	3.1	1.8

[The PERS mortality rates have been updated to reflect mortality improvements reported in the 2014 CalPERS Experience Study]

Post-retirement Mortality: According to the post-retirement mortality rates under the CalPERS pension plan updated to reflect the most recent experience study. Sample deaths per 1,000 employees applicable to Miscellaneous, Fire and Police retirees are as follows:

Age	Males	Females
55	6.0	4.2
60	7.1	4.4
65	8.3	5.9
70	13.1	9.9
75	22.1	17.2
80	39.0	29.0
85	69.7	52.4
90	129.7	98.9

Sample deaths per 1,000 employees applicable to non-industrial disabled retirees are as follows:

Age	Males	Females
55	19.7	11.5
60	22.9	12.4
65	24.5	16.1
70	28.8	22.1
75	39.9	30.4
80	60.8	47.3
85	97.3	77.6
90	148.0	128.9

Sample deaths per 1,000 employees applicable to industrial disabled retirees are as follows:

Age	Males	Females
55	6.0	4.2
60	7.5	5.2
65	11.2	8.4
70	16.4	14.0
75	28.3	23.2
80	49.0	39.1
85	76.8	62.5
90	129.7	98.9

[The PERS mortality rates have been updated to reflect mortality improvements reported in the 2014 CalPERS Experience Study]

Disability Rates:

According to the disability rates under the CalPERS pension plan updated to reflect the most recent experience study. Sample industrial disabilities per 1,000 employees:

Age	Miscellaneous	Safety	Firefighter
25	0.0	3.2	1.2
30	0.0	6.4	2.5
35	0.0	9.7	3.7
40	0.0	12.9	4.9
45	0.0	16.1	6.1
50	0.0	19.2	7.4
55	0.0	66.8	72.1

Retirement Rates:

According to the retirement rates under the CalPERS pension plan updated to reflect the most recent experience study as follows:

Miscellaneous Employees
Tier 1 – 2.5%@ Age 55
Tier 2 – 2.0%@ Age 60
Tier 3 – 2.0%@ Age 62

Fire Employees
Tier 1 – 3.0%@ Age 50
Tier 2 – 2.0%@ Age 50
Tier 3 – 2.7%@ Age 57

Safety Employees
Tier 1 – 3.0%@ Age 50
Tier 2 – 3.0%@ Age 55
Tier 3 – 2.7%@ Age 57

[The prior valuation assumed +2.0% increase for all Miscellaneous Employees Tier 1 -2.5%@ Age 55]

Participation Rates: 100% of eligible full-time employees under the Hybrid Plan are assumed to participate at retirement with 75% assumed to continue coverage through PEMHCA. 18% of eligible part-time employees are assumed to elect to continue coverage under PEMHCA at retirement. For employees in the RHS Plan, the City is responsible for the PEMHCA minimum required contribution but may be eligible for reimbursement by the retiree from their individual RHS account. For purposes of the valuation, 35% of employees in the RHS Plan are assumed to continue coverage under PEMHCA at retirement with the City paying the full PEMHCA minimum required contribution.

[*The prior valuation assumed that a portion of the PEMHCA minimum required contribution based on retirement age would be paid for eligible full-time employees under the RHS Plan. No assumption for percentage of full-time employees participating in the Hybrid Plan and continuing coverage through PEMHCA was stated.]*

Spouse Coverage: 60% of future retirees are assumed to cover their spouse. Male spouses are assumed to be 3 years older than female spouses. Actual spouse coverage and spouse ages are used for current retirees.

[The prior valuation assumed 100% of future retirees currently covering their spouse (60% of future retires not currently covering their spouse) would elect coverage for their spouse at retirement.]

Waived Retiree Re-election: 20% of the current retiree population currently under 65 re-elect PEMHCA plan at age 65; 0% of those currently over age 65 re-elect.

Claim Cost Development: The valuation claim costs are based on the premiums paid for medical insurance coverage. The City participates in the CalPERS Health Plan, a community rated plan. The valuation assumes the City is exempt from the valuation of any medical plan rate subsidy.

Sensitivity analysis is provided estimating the medical plan rate subsidy.

Medical Trend Rates: Medical costs are adjusted in future years by the following trends:

Year	PPO	HMO
2015	7.5%	7.0%
2016	7.0%	6.5%
2017	6.5%	6.0%
2018	6.0%	5.5%
2019	5.5%	5.0%
2020+	5.0%	5.0%

[The prior valuation assumed initial rates of 8.0% for Non-Medicare and 8.3% for Medicare trending down to 5% in 2021]

Minimum Contribution: The PEMHCA minimum required contribution is assumed to increase 4.0% per year.

[The prior valuation assumed 4.5% per year]

Fixed Dollar Contribution: Assumed to remain constant in future years.

Medicare Participation: Assume 100% participation.

Actuarial Cost Method: The actuarial cost method used to determine the allocation of the retiree health actuarial liability to the past (accrued), current and future periods is the Entry Age Normal (EAN) cost method. The EAN cost method is a projected benefit cost method which means the "cost" is based on the projected benefit expected to be paid at retirement.

The EAN normal cost equals the level annual amount of contribution from the employee's date of hire (entry date) to their retirement date that is sufficient to fund the projected benefit. For plans unrelated to pay, the normal cost is calculated to remain level in dollars; for pay-related plans the normal cost is calculated to remain level as a percentage of pay. The City has elected to determine the EAN normal cost as a level percentage of pay. The EAN actuarial accrued liability equals the present value of all future benefits for retired and current employees and their beneficiaries less the portion expected to be funded by future normal costs.

All employees eligible as of the measurement date in accordance with the provisions of the Plan listed in the data provided by the City were included in the valuation.

Actuarial Value of Assets: Asset gains and losses are recognized over 5 years subject to a corridor equal to a minimum of 80% and a maximum of 120% of the market value of plan assets.

Actuarial Value of Assets: The valuation assumes investment gains and losses are smoothed over a 5-year period. The actuarial value of assets shall be no less than 80% of the market value of assets and shall be no more than 120% of the market value of assets.

Amortization of UAAL: The unfunded actuarial accrued liability is being amortized using a level-percentage of payroll method on a closed basis. The remaining period is 13 years.

CalPERS Pension Plan The rates used are from the CalPERS 1997-2007 Experience Study.

SECTION VII. ACTUARIAL CERTIFICATION

The results set forth in this report are based on the actuarial valuation of the retiree health benefits program of the City of Newport Beach (the “City”) as of June 30, 2013.

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

The assumptions used in performing the valuation, as summarized in this report, and the results based thereupon, represent our best estimate of anticipated experience and actuarial cost of the retiree health benefits program.

I am a member of the American Academy of Actuaries and believe I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Certified by:

Marilyn K. Jones, ASA, EA, MAAA, FCA
Consulting Actuary

Date: ______________________

SECTION VIII. DEFINITIONS

The definitions of the terms used in GASB actuarial valuations are noted below.

Actuarial Liability (also referred to as Present Value of Future Benefits) – Total projected benefits include all benefits estimated to be payable to plan members (retirees and beneficiaries, terminated employees entitled to benefits but not yet receiving them, and current active members) as a result of their service through the valuation date and their expected future service. The actuarial present value of total projected benefits as of the valuation date is the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Expressed another way, it is the amount that would have to be invested on the valuation date so that the amount invested plus investment earnings will provide sufficient assets to pay total projected benefits when due.

Actuarial Accrued Liability – That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of plan benefits and expenses which is not provided for by the future Normal Costs.

Actuarial Assumptions – Assumptions as to the occurrence of future events affecting health care costs, such as: mortality, turnover, disablement and retirement; changes in compensation and Government provided health care benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; characteristics of future entrants for Open Group Actuarial Cost Methods; and other relevant items.

Actuarial Cost Method – A procedure for determining the Actuarial Present Value of future benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.

Actuarial Present Value – The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions.

Annual OPEB Cost – An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.

Annual Required Contribution (ARC) – The employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.

Explicit Subsidy – The difference between (a) the amounts required to be contributed by the retirees based on the premium rates and (b) actual cash contribution made by the employer.

Funded Ratio – The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

Healthcare Cost Trend Rate – The rate of change in the per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

Implicit Rate Subsidy – In an experience-rated healthcare plan that includes both active employees and retirees with blended premium rates for all plan members, the difference between (a) the age-adjusted premiums approximating claim costs for retirees in the group (which, because of the effect of age on claim costs, generally will be higher than the blended premium rates for all group members) and (b) the amounts required to be contributed by the retirees.

Net OPEB Obligation – The cumulative difference since the effective date of this Statement between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt.

Normal Cost – The portion of the Actuarial Present Value of plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

Pay-as-you-go – A method of financing a benefit plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

Per Capita Costs – The current cost of providing postretirement health care benefits for one year at each age from the youngest age to the oldest age at which plan participants are expected to receive benefits under the plan.

Select and Ultimate Rates – Actuarial assumptions that contemplate different rates for successive years. Instead of a single assumed rate with respect to, for example, the healthcare trend rate assumption, the actuary may apply different rates for the early years of a projection and a single rate for all subsequent years. For example, if an actuary applies an assumed healthcare trend rate of 6.5% for year 20W0, 6.0% for 20W1, 5.5% for 20W2, then 5.0% for 20W3 and thereafter, then 6.5%, 6% and 5.5% are select rates, and 5% is the ultimate rate.

Substantive Plan – The terms of an OPEB plan as understood by the employer(s) and plan participant.