City of Costa Mesa

Police Officer Separation Incentive Program Actuarial Valuation

Fiscal Year Ending June 30, 2014

Prepared by:
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Table of Contents

nyhart

June 26, 2014

Colleen O'Donoghue
City of Costa Mesa
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This report summarizes the GASB 27 actuarial valuation for the City of Costa Mesa 2013/14 fiscal year. To the best of our knowledge, the report presents a fair position of the funded status of the plan in accordance with GASB Statement No. 27 (Accounting for Pensions). The report utilizes assumptions and methodologies as prescribed in GASB 27 and reasonable industry assumptions based on our professional opinion. The valuation is also based upon our understanding of the plan provisions as summarized within the report.

The information presented herein is based on the information furnished to us by the Plan Sponsor that has been reconciled and reviewed for reasonableness. We are not aware of any material inadequacy in employee census provided by the Plan Sponsor. We have not audited the information at the source, and therefore do not accept responsibility for the accuracy or the completeness of the data on which the information is based.

The actuarial assumptions were selected by the Plan Sponsor with the concurrence of Nyhart. In our opinion, the actuarial assumptions are individually reasonable and in combination represent our estimate of anticipated experience of the Plan. All computations have been made in accordance with generally accepted actuarial principles and practice.

To our knowledge, there have been no significant events prior to the current year's measurement date or as of the date of this report that could materially affect the results contained herein.

Neither Nyhart nor any of its employees has any relationship with the plan or its sponsor that could impair or appear to impair the objectivity of this report. Our professional work is in full compliance with the American Academy of Actuaries "Code of Professional Conduct" Precept 7 regarding conflict of interest.

Should you have any questions please do not hesitate to contact us.

Randy Gomez

Randy Gomez, FSA, MAAA
Consulting Actuary

Evi Laksana, ASA, MAAA
Valuation Actuary

Summary of Results

Presented below is the summary of GASB 27 results for the fiscal year ending June 30, 2014 compared to the prior fiscal years as shown in the Plan Sponsor's Notes to Financial Statement.

		As of July 1, 2011		*As of July 1, 2013*
Actuarial Accrued Liability	$	2,770,839	$	2,420,443
Actuarial Value of Assets	$	0	$	0
Unfunded Actuarial Accrued Liability	$	2,770,839	$	2,420,443
Funded Ratio		0.0%		0.0%

		FY 2012/13		*FY 2013/14*
Annual Required Contribution	$	258,003[1]	$	225,377
Annual Pension Cost	$	140,558	$	111,718
Annual Employer Contribution	$	219,252	$	211,983

		As of June 30, 2013		*As of June 30, 2014*
Net Pension Obligation	$	2,362,297	$	2,262,032

	As of June 30, 2014
Total Active Participants	0
Total Retiree Participants	19

The active participants' number above may include active employees who currently have no health care coverage. Refer to Summary of Participants section for an accurate breakdown of active employees with and without coverage.

[1] GASB 27 valuation report was not prepared for FY 2012/13. The City opts to repeat GASB 27 disclosures as shown in the FYE June 30, 2012 valuation report.

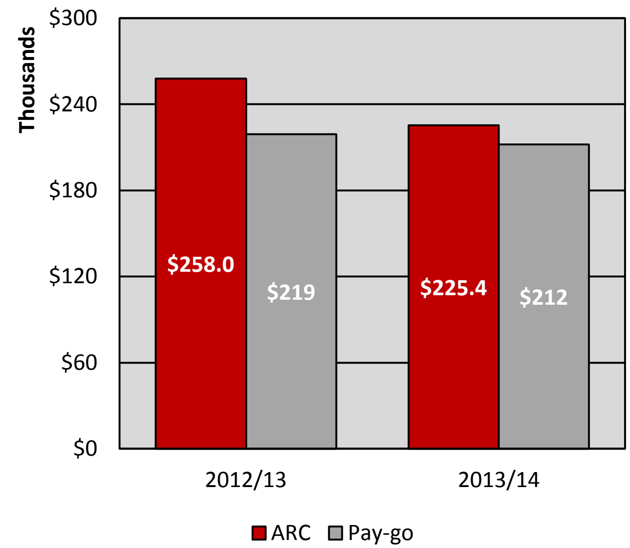
Development of Annual Required Contribution (ARC) and Net Pension Obligation (NPO)

Required Supplementary Information		FY 2012/13		FY 2013/14
Actuarial Accrued Liability as of beginning of year	$	2,770,839	$	2,420,443
Actuarial Value of Assets as of beginning of year		0		0
Unfunded Actuarial Accrued Liability (UAAL)	**$**	**2,770,839**	**$**	**2,420,443**
Funded Ratio		0.0%		0.0%

Annual Required Contribution		FY 2012/13		FY 2013/14		FY 2014/15
Normal cost as of end of year	$	0	$	0	$	0
Amortization of the UAAL as of end of year		258,003		225,377		225,377
Total Annual Required Contribution (ARC)	**$**	**258,003**	**$**	**225,377**	**$**	**225,377**

Net Pension Obligation (NPO)		FY 2012/13		FY 2013/14		FY 2014/15
ARC as of end of year	$	258,003	$	225,377	$	225,377
Interest on NPO to end of year		109,845		106,303		101,791
NOO amortization adjustment to the ARC		(227,290)		(219,962)		(210,626)
Annual Pension cost	$	140,558	$	111,718	$	116,542
Annual employer contribution for pay-go cost		(219,252)		(211,983)[2]		TBD
Change in NPO	$	(78,694)	$	(100,265)	$	TBD
Net Pension Obligation as of beginning of year		2,440,991		2,362,297		2,262,032
Net Pension Obligation as of end of year	**$**	**2,362,297**	**$**	**2,262,032**	**$**	**TBD**

Cash vs Accrual Accounting



Annual Required Contribution (ARC) is the annual expense recorded in the income statement under GASB 27 accrual accounting. It replaces the cash basis method of accounting recognition with an accrual method.

[2] FY 2013/14 annual employer contribution for pay-go cost is estimated. This report will be updated once the actual FY 2013/14 pay-go cost is available.

Schedule of Funding Progress

As of	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets (AVA)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Discount Rate
	A	B	C = A - B	D = B / A	E
July 1, 2013	$ 2,420,443	$ 0	$ 2,420,443	0.0%	4.5%
July 1, 2012[3]	$ 2,770,839	$ 0	$ 2,770,839	0.0%	4.5%
July 1, 2011	$ 2,770,839	$ 0	$ 2,770,839	0.0%	4.5%
July 1, 2010	$ 2,910,828	$ 0	$ 2,910,828	0.0%	4.5%
July 1, 2009	$ 2,910,828	$ 0	$ 2,910,828	0.0%	4.5%

Schedule of Employer Contributions

FYE	Employer Contributions	Annual Required Contribution (ARC)	% of ARC Contributed
	A	B	C = A / B
June 30, 2014	$ 211,983	$ 225,377	94.1%
June 30, 2013	$ 219,252	$ 258,003	85.0%
June 30, 2012	$ 229,966	$ 258,003	89.1%
June 30, 2011	$ 229,966	$ 271,038	84.8%
June 30, 2010	$ 229,179	$ 271,038	84.6%

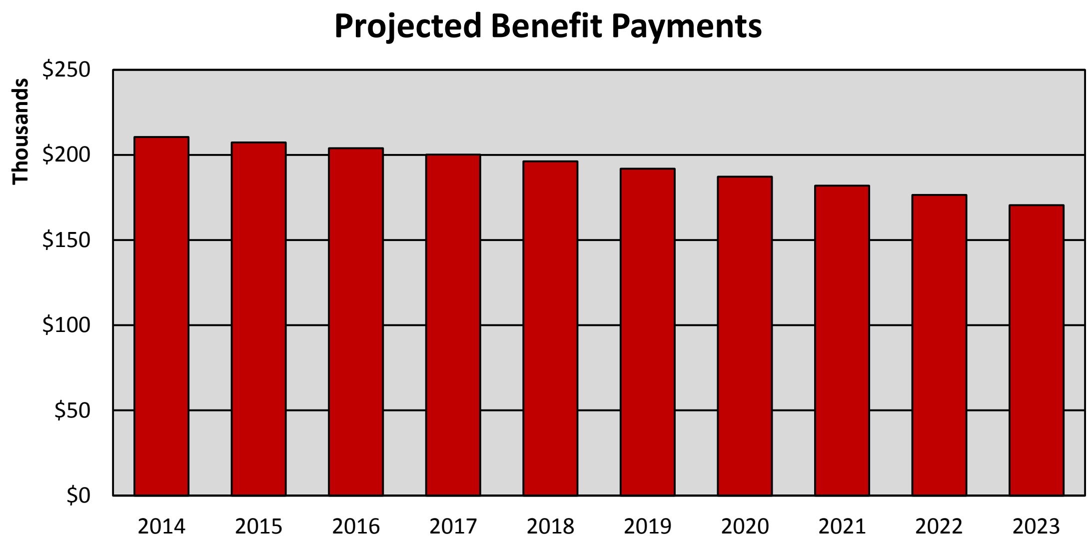
Historical Annual OPEB Cost

As of	Annual Pension Cost	% of Annual Pension Cost Contributed	Net Pension Obligation
June 30, 2014	$ 111,718	189.7%	$ 2,262,032
June 30, 2013	$ 140,558	156.0%	$ 2,362,297
June 30, 2012	$ 136,038	169.0%	$ 2,440,991
June 30, 2011	$ 140,503	163.7%	$ 2,534,919
June 30, 2010	$ 140,503	163.1%	$ 2,624,382

[3] These are the interim years when valuation reports were not prepared. The Actuarial Accrued Liability (AAL) as of the beginning of each interim year is the same as the prior year's beginning of year AAL.

The below projections show the actuarially estimated number of retirees and employer-paid contributions for pension benefits for the next ten years.

FYE	Number of Retirees	Estimated Annual Payments
2014	19	$ 210,557
2015	19	$ 207,353
2016	18	$ 203,934
2017	18	$ 200,258
2018	17	$ 196,254
2019	17	$ 191,879
2020	16	$ 187,138
2021	16	$ 182,002
2022	15	$ 176,434
2023	15	$ 170,421



Below is a comparison of the Annual Required Contribution if the money is put in a dedicated pension Trust under a conservative and aggressive investment returns.

For Fiscal Year 2012/13

	Conservative Investment		Aggressive Investment
Discount Rate	**4.5%**	**4.5%**	**6.5%**
Funding Policy	Pay-go	Pre-funded	Pre-funded
Amortization Period	15 years	15 years	15 years
Funded Status			
Actuarial Accrued Liability (AAL)	$ 2,420,443	$ 2,420,443	$ 2,079,455
Plan Assets	0	(1,248,197)	(1,248,197)
Unfunded AAL	$ 2,420,443	$ 1,172,246	$ 831,258
Annual Required Contribution			
Normal Cost	$ 0	$ 0	$ 0
Amortization of the UAAL	225,377	109,152	88,407
Annual Required Contribution	$ 225,377	$ 109,152	$ 88,407

Eligibility	Service retirement: Age 50 with 5 years of service Terminated vested participants: 10 years of service with Costa Mesa Police Department service
Plan	The plan was effective on July 1, 1993 for sworn members of the City of Costa Mesa Police Department. The plan was originally a 1% supplemental plan to the City's 2%@50 benefit. Under the Retirement Plan for Safety Employees of the City of Cost Mesa, the City joined CalPERS with 3%@50 Safety benefit as of December 31, 2000 and transferred active members to CalPERS. Employees who retired prior to July 1, 1999 were not transferred to CalPERS.
Retirement Benefit	The retirement benefit is 1% of the highest 12-month earnings for credited services up to 25 years. Maximum benefit is 75% of the highest 12-month earnings for service retirement including all public plan pension benefits but not including Social Security. The 75% is proportionately reduced for less than 25 years of Cost Mesa Police Department service.
Termination Benefit	Deferred benefit with 25 years of Costa Mesa Police Department service.
Disability Benefit	None
Survivor Benefit	Survivor benefit of 50% of the supplemental benefit is available
Cost of Living Increases	None
Normal Form of Benefit	Single life annuity
Asset	No assets have been transferred by the City to a restricted and segregated trust nor is there any intent to do so in the near future. There is $1,248,197 in Trial Balance Fund 755 as of June 30, 2013 but although this fund is dedicated to the Police Officer Separation Incentive Program, it has not been set up as a segregated and restricted pension trust.

The actuarial assumptions used in this report represent a reasonable long-term expectation of future pension outcomes and they are as prescribed by GASB 27. As national economic and Plan Sponsor experience change over time, the assumptions will be tested for ongoing reasonableness and, if necessary, updated.

Measurement Date July 1, 2013

Discount Rate 4.5%

Payroll Growth N/A; all participants have retired

Inflation Rate 3.0% per year

Cost Method Unit Credit

Amortization Level dollar over 15 years based on an open group

Employer Funding Policy Pay-as-you-go

Census Data Census information was provided by the Plan Sponsor as of May 2014. We have reviewed it for reasonableness and no material modifications were made to the census data.

Mortality Rates are based on CalPERS Safety Police Plan of the City of Cost Mesa annual valuation report as of June 30, 2012. Annual sample rates are as shown below:

	Healthy Retirees		Non-Duty Disabled Retirees	
Age	**Male**	**Female**	**Male**	**Female**
50	0.24%	0.13%	1.63%	1.25%
60	0.72%	0.43%	2.29%	1.63%
70	1.68%	1.24%	3.87%	3.02%
80	5.27%	3.75%	8.39%	5.56%
90	16.75%	12.40%	21.55%	14.95%
100	34.55%	31.88%	45.91%	37.66%
110	100.00%	100.0%	100.00%	100.00%

Retirement/Disability/Turnover Rate N/A; all participants have retired

Comparison of Participant Demographic Information

	As of June 30, 2012	*As of June 30, 2014*
Retired Participants	22	19
Averages for Inactive		
Age	66.3	68.8
Monthly Benefit	$ 871.09	$ 929.75

Glossary

Definitions

GASB 45 defines several unique terms not commonly employed in the funding of pension and retiree health plans. The definitions of the terms used in the GASB actuarial valuations are noted below.

1. **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.

2. **Actuarial Assumptions** – Assumptions as to the occurrence of future events affecting health care costs, such as: mortality, withdrawal, 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.

3. **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.

4. **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. For purposes of this standard, each such amount or series of amounts is:

   a) adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, Social Security, marital status, etc.);
   b) multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned; and
   c) discounted according to an assumed rate (or rates) of return to reflect the time value of money.

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

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

7. **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.

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

9. **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.

Definitions (continued)

10. **Implicit 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.

11. **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.

12. **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.

13. **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.

14. **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.

15. **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.

16. **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 investment return 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 investment return of 8% for year 20W0, then 7.5% for 20W1, and 7% for 20W2 and thereafter, then 8% and 7.5% select rates, and 7% is the ultimate rate.

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