



P.O. Box 942709
Sacramento, CA 94229-2709
888 CalPERS (or **888-225-7377**)
Telecommunications Device for the Deaf
No Voice (916) 795-3240
www.calpers.ca.gov

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Circular Letter

TO: AGRICULTURAL DISTRICTS, PUBLIC AGENCIES, COUNTY SUPERINTENDENT OF SCHOOLS, AND INDIVIDUAL SCHOOL DISTRICTS

SUBJECT: GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) 45 VALUATIONS AND REPORTING

ATTENTION: **FINANCE DIRECTORS, HUMAN RESOURCES DIRECTORS, PUBLIC AGENCY AND SCHOOL DECISION MAKERS**

As part of the ongoing informational process dealing with GASB 45 valuations, reporting, and pre-funding, CalPERS is taking this opportunity to address an issue that came up at a recent forum for public agency finance officers. A question was raised regarding GASB 45 reporting and whether or not the CalPERS Public Employees' Medical and Hospital Care Act (PEMHCA) health plan was a "community rated plan" for purposes of valuations and reporting. This issue is important because if a plan is "community rated" then there is no need to calculate or to report any liabilities related to the "implicit rate subsidy" defined in GASB 45. After discussion with GASB staff, CalPERS can assure all interested parties that there is no need to modify our comments on this topic, which are contained in the CalPERS Other Post-Employment Benefits (OPEB) Assumption Model. Specifically, the model states that,

Generally, PEMHCA plans are community rated (except for the State of California) and no age related costs need to be computed.

It is also generally true that all non-PEMHCA plans in California are not community rated and age related costs will need to be determined, pre-funded and paid out of the trust.

This assumption is consistent with the exception contained in the GASB 45 statement found in Paragraph 13 a. (2) (page 7-8) including footnotes 8 and 9.

(2) When an employer provides benefits to both active employees and retirees through the same plan, the benefits to retirees should be

segregated for actuarial measurement purposes, and the projection of future retiree benefits should be based on claims costs, or age-adjusted premiums approximating claims costs, for retirees, in accordance with actuarial standards issued by Actuarial Standards Board. *However, when an employer participates in a community-rated plan, in which premium rates reflect the projected health claims experience of all participating employers rather than that of any single participating employer, and the insurer or provider organization charges the same unadjusted premium for both active employees and retirees, it is appropriate to use the unadjusted premiums as the basis for projection of retiree benefits, to the extent permitted by actuarial standards (ASOP 6). (Emphasis added).*

It remains the responsibility of each actuary to identify and certify their conclusions on whether the implicit rate subsidy applies for each employer as part of their valuation report.

CalPERS will continue to periodically address issues that we feel are of interest to employers regarding GASB 45 reporting and pre-funding. The CalPERS Board has provided a pre-funding option that is currently available to agencies that provide health benefits to their active employees and retirees through PEMHCA. CalPERS continues to work with interested parties to assure passage of AB 554 (Hernandez) which would expand availability of this pre-funding option to all public employers in California.

To discuss this further with your CalPERS actuary, please contact the CalPERS Employer Contact Center at **888 CalPERS** (or **888-225-7377**).

Kenneth W. Marzion
Assistant Executive Officer
Actuarial and Employer Services