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December 18, 2007

AGENDA ITEM 9b

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Fiscal Year 2006-2007 Long-Term Care Annual Valuation Report

II. PROGRAM: Long-Term Care

III. RECOMMENDATION: Staff recommends that the Board accept the Long-Term Care Program 2007 Valuation Report

IV. ANALYSIS:

Summary of June 30, 2007 Valuation Report

The CalPERS Long-Term Care Program (Program) 2007 actuarial valuation was completed by United Health Actuarial Services, Inc. (UHAS). The valuation (Attachment 1) includes a "base case" scenario which reflects an investment earnings rate of 7.79 percent and revised expense, voluntary lapse, and morbidity assumptions as compared to the 2006 valuation. Also included in the valuation is the "base case" scenario revised to reflect the projected impact of rate actions recently adopted by the Board.

The results of the "base case" scenarios referenced above are as follows:

- Without Rate Increase: Projected deficit of approximately 42.9 percent of the present value of future premiums or $822.6 million.
- With Rate Increase: Projected deficit of approximately 5.7 percent of the present value of future premiums or $147.7 million.

The corresponding 2006 "base case" result from the 2006 valuation was a projected deficit of approximately 36.8 percent of the present value of future premiums or $753.5 million.

Please note that UHAS expected a "With Rate Increase" deficit for the 2007 valuation because the overall mitigation approach adopted by the Board assumed that both future new business and additional claims savings would

offset the current deficit over time, reducing the required rate increases. As a result, the Board approved rate increases that would not be expected to restore "base case" valuation results to a non-deficit position in the short-term. As indicated on page 10 of Attachment 1, the 2007 "Without Rate Increase" valuation results are consistent with corresponding 2006 valuation results adjusted to 6/30/07.

Favorable FY 2007 claims and investment lapse experience (as compared to the 2006 valuation) were approximately offset by the net impact of changes to claims, expenses and voluntary lapse assumptions.

Recommendation

Staff recommends that the Board accept the Long-Term Care Program 2007 Valuation Report as submitted.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic Plan. It is brought to the Health Benefits Committee because of a request by the Board to report annually the valuation of the Program.

VI. RESULTS/COSTS:

The CalPERS costs associated with this item are included in the long-term care annual budget.

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Marcine Elvin Crane, Jr., MS, CPA, Chief
Office of Health Plan Administration

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Gregory A. Franklin
Assistant Executive Officer
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Attachment