February 19, 2014

Ms. Susan Skipp
Chief Business Official
Shoreline Unified School District
P.O. Box 198
Tomales, CA 94971

Re: Shoreline Unified School District ("District") GASB 45 Valuation

Dear Ms. Skipp:

This report sets forth the results of our GASB 45 actuarial valuation of the District's retiree health insurance program as of July 1, 2013.

In June, 2004 the Government Accounting Standards Board (GASB) issued its final accrual accounting standards for retiree healthcare benefits, GASB 43 and GASB 45. GASB 43/45 require public employers such as the District to perform periodic actuarial valuations to measure and disclose their retiree healthcare liabilities for the financial statements of both the employer and the trust, if any, set aside to pre-fund these liabilities. The District must obtain actuarial valuations of its retiree health insurance program under GASB 43/45 not less frequently than once every three years.

To accomplish these objectives the District selected Demsey, Filliger and Associates (DF&A) to perform an actuarial valuation of the retiree health insurance program as of July 1, 2013. This report may be compared with the valuation performed by DF&A as of July 1, 2010, to see how the liabilities have changed since the last valuation. We are available to answer any questions the District may have concerning the report.

Financial Results

We have determined that the amount of actuarial liability for District-paid retiree benefits is $3,719,568 as of July 1, 2013. This represents the present value of all benefits expected to be paid by the District for its current and future retirees. If the District were to place this amount in a fund earning interest at the rate of 4.0% per year, and all other actuarial assumptions were exactly met, the fund would have exactly enough to pay all expected benefits.

This includes benefits for 8 retirees as well as 105 active employees who may become eligible to retire and receive benefits in the future. It excludes employees hired after the beginning of the 2013-14 school year.

When we apportion the $3,719,568 into past service and future service components under the Projected Unit Credit Cost Method, the past service liability (or "Accrued Liability") component is $2,013,470 as of July 1, 2013. This represents the present value of all benefits earned to date assuming that an employee earns retiree healthcare benefits ratably over his or her career. The $2,013,470 is comprised of liabilities of $1,747,808 for active employees and $265,662 for retirees. Because the District has not established an irrevocable trust for the pre-funding of retiree healthcare benefits, the Unfunded Accrued Liability (called the UAL, equal to the AL less Assets) is also $2,013,470.

We have determined that Shoreline Unified School District's "Annual Required Contributions", or "ARC", for the fiscal year 2013-14, is $286,133. The $286,133 is comprised of the present value of benefits accruing in the current year, called the "Service Cost", and a 30-year amortization of the UAL. We estimate that the District will pay approximately $74,497 for the 2013-14 fiscal year in healthcare costs for its retirees, so the difference between the accrual accounting expense (ARC) and pay-as-you-go is an increase of $211,636.

There are two adjustments to the ARC that are required in order to determine the District's Annual OPEB Cost (AOC) for the 2013-14 fiscal year. We have calculated these adjustments based on a Net OPEB Obligation of $525,118 as of June 30, 2013, resulting in an AOC for 2013-14 of $276,770.

We show these numbers in the table on the next page and in Exhibit II. All amounts are net of expected future retiree contributions, if any.

Shoreline Unified School District

Annual Liabilities and Expense under

GASB 45 Accrual Accounting Standard

Projected Unit Credit Cost Method

Item	**Amounts for Fiscal 2013-14**
Present Value of Future Benefits (PVFB)	
Active	$3,453,906
Retired	265,662
Total: PVFB	**$3,719,568**
Accrued Liability (AL)	
Actives	$1,747,808
Retired	265,662
Total: AL	**$2,013,470**
Assets	(0)
Total: Unfunded AL	**$2,013,470**
Annual Required Contributions (ARC)	
Service Cost At Year-End	$169,694
30-year Amortization of Unfunded AL	116,439
Total: ARC	**$286,133**
Adjustments to ARC	
Interest on Net OPEB Obligation*	21,005
Adjustment to ARC*	(30,368)
Total: Annual OPEB Cost (AOC) for 2013-14	**$276,770**

*Amounts based on June 30, 2013 Net OPEB Obligation of $525,118.

The ARC of $286,133, shown above, should be used for the 2013-14, 2014-15 and 2015-16 fiscal years, but the Annual OPEB Cost for all three years must include an adjustment based on the Net OPEB Obligation as reported in the prior financial statement, which is not known precisely in advance.

When the District begins preparation of the June 30, 2014 government-wide financial statements, DF&A will provide the District and its auditors with complimentary assistance in preparation of footnotes and required supplemental information for compliance with GASB 45 (and GASB 43, if applicable).

Differences from Prior Valuation

The most recent prior valuation was completed by DF&A as of July 1, 2010. The Accrued Liability as of that date was $1,798,111, compared to $2,013,470 on July 1, 2013. This Accrued Liability (AL) is for District-paid benefits only; that is, it is net of expected future retiree contributions. In this section, we provide a reconciliation between the 2010 AL and the 2013 AL, so that it is possible to track the numbers from one actuarial report to the next.

Several factors have caused the AL to change since 2010. The AL increases with the passage of time as employees accrue more service and get closer to receiving benefits, and decreases as outstanding benefit obligations to retirees are satisfied. There are actuarial gains/losses from one valuation to the next, and changes in actuarial assumptions and methodology for the current valuation. The most important of these factors were as follows:

1. There was a gain (a decrease in the AL) of $47,237 from increases in healthcare premiums less than expected.
2. We changed to more up-to-date mortality tables. This change increased the AL by $6,166.
3. We increased the initial healthcare trend rate from 5% to 8% to better reflect our expectations of premium increases over the next several years. This change increased the AL by $85,025.
4. We lowered the discount rate from 5.0% to 4.0% to reflect the decrease in long-term interest rates over the last several years. This change increased the AL by $154,941.
5. There was a net census gain (a decrease in AL) of $262,291, primarily from fewer retirements than expected.

The changes to the AL since the July 1, 2010 valuation may be summarized as follows:

Change to AL	AL
AL as of 7/1/10	$1,798,111
Passage of time	278,755
Increases in premiums < expected	(47,237)
Change in mortality tables	6,166
Change in trend rates	85,025
Change in discount rate	154,941
Census (gain) (retirement, turnover, mortality)	(262,291)
AL as of 7/1/13	**$2,013,470**

<u>Funding Schedules</u>

There are many ways to approach the pre-funding of retiree healthcare benefits. In the *Financial Results* section, we determined the annual expense for all District-paid benefits. The expense is an orderly methodology, developed by the GASB, to account for retiree healthcare benefits. However, the GASB 45 expense has no direct relation to amounts the District may set aside to pre-fund healthcare benefits.

The table on the next page provides the District with three alternative schedules for <u>funding</u> (as contrasted with <u>expensing</u>) retiree healthcare benefits. The schedules all assume that the retiree fund earns, or is otherwise credited with, 4.0% per annum on its investments, a starting fund value of $111,487 as of July 1, 2013, and that contributions and benefits are paid mid-year.

The schedules are:

1. A level contribution amount for the next 20 years.
2. A level percent of the Unfunded Accrued Liability.
3. A constant percentage (3%) increase for the next 20 years.

We provide these funding schedules to give the District a sense of the various alternatives available to it to pre-fund its retiree healthcare obligation. The three funding schedules are simply three different examples of how the District may choose to spread its costs.

By comparing the schedules, you can see the effect that early pre-funding has on the total amount the District will eventually have to pay. Because of investment earnings on fund assets, the earlier contributions are made, the less the District will have to pay in the long run. Of course, the advantages of pre-funding will have to be weighed against other uses of the money.

The table on the following page shows the required annual outlay under the pay-as-you-go method and each of the above schedules. **The three funding schedules include the "pay-as-you-go" costs; therefore, the amount of pre-funding is the <u>excess</u> over the "pay-as-you-go" amount.**

These numbers are computed on a closed group basis, assuming no new entrants, and using unadjusted premiums. We use unadjusted premiums for these funding schedules because we do not recommend that the District pre-fund for the full age-adjusted costs reflected in the GASB 45 liabilities shown in the first section of this report. If the District's premium structure changes in the future to explicitly charge under-age 65 married retirees for the full actuarial cost of their benefits, this change will be offset by a lowering of the active employee rates (all else remaining equal), resulting in a direct reduction in District operating expenses on behalf of active employees from that point forward. For this reason among others, we believe that pre-funding of the full GASB liability would be redundant.

Shoreline Unified School District

Sample Funding Schedules (Closed Group)

Starting Fund Value of $111,487 as of July 1, 2013

Fiscal Year Beginning	Pay-as-you-go	Level Contribution for 20 years	Level % of Unfunded Liability*	Constant Percentage Increase
2013	$74,497	$175,600	$317,329	$135,819
2014	109,681	175,600	262,617	139,894
2015	133,660	175,600	223,547	144,090
2016	133,347	175,600	195,311	148,413
2017	154,570	175,600	172,789	152,865
2018	173,665	175,600	157,060	157,451
2019	157,299	175,600	146,314	162,175
2020	180,845	175,600	135,700	167,040
2021	168,651	175,600	129,326	172,051
2022	140,099	175,600	122,582	177,213
2023	148,820	175,600	114,016	182,529
2024	161,820	175,600	107,744	188,005
2025	158,525	175,600	103,619	193,645
2026	166,455	175,600	99,601	199,455
2027	159,928	175,600	96,691	205,438
2028	143,003	175,600	93,323	211,602
2029	140,260	175,600	88,733	217,950
2030	121,680	175,600	84,468	224,488
2031	115,186	175,600	79,164	231,223
2032	144,907	175,600	74,117	238,159
2033	146,825	0	72,147	0
2034	177,480	0	70,285	0
2035	187,332	0	70,635	0
2036	159,155	0	71,023	0
2037	126,447	0	68,680	0
2038	134,125	0	64,033	0
2039	101,853	0	60,462	0
2040	68,329	0	55,085	0
2041	81,770	0	48,390	0
2042	94,955	0	43,723	0
2043	73,046	0	65,246	0
2044	55,158	0	55,158	0
2045	21,921	0	21,921	0
2046	25,689	0	25,689	0
2047	29,330	0	29,330	0
2048	14,081	0	14,081	0
2049	3,977	0	3,977	0
2050	4,774	0	4,774	0
2055	0	0	0	0

*Reverts to pay-as-you-go in 2044.

Note to auditor: when calculating the employer OPEB contribution for the year ending on the statement date, we recommend multiplying the actual District-paid premiums on behalf of retirees by a factor of 1.2944 to adjust for the implicit subsidy.

Actuarial Assumptions

In order to perform the valuation, the actuary must make certain assumptions regarding such items as rates of employee turnover, retirement, and mortality, as well as economic assumptions regarding healthcare inflation and interest rates. Our assumptions are based on a standard set of assumptions we have used for similar valuations, modified as appropriate for the District. For example, turnover rates are taken from a standard actuarial table, T-5, without adjustment. This matches the District's historic turnover patterns. Retirement rates were also based on recent District retirement patterns. Both assumptions should be reviewed in the next valuation to see if they are tracking well with experience.

The discount rate of 4.0% is based on our best estimate of expected long-term plan experience. It is in accordance with our understanding of the guidelines for selection of this rate under GASB 45 for unfunded plans such as the District's. The healthcare trend rates are based on our analysis of recent District experience and our knowledge of the general healthcare environment.

In determining the cost of covering early retirees (those under the age of 65), we used an age-adjusted claims cost matrix fitted to the average single premium for early retirees. A complete description of the actuarial assumptions used in the valuation is set forth in the "Actuarial Assumptions" section.

Projected Annual Pay-as-you go Costs

As part of the valuation, we prepared a projection of the expected annual cost to the District to pay benefits on behalf of its retirees on a pay-as-you-go basis. These numbers are computed on a closed group basis, assuming no new entrants, and are net of retiree contributions. Projected pay-as-you-go costs for selected years are as follows:

FYB	Pay-as-you-go
2013	$74,497
2014	109,681
2015	133,660
2016	133,347
2017	154,570
2018	173,665
2019	157,299
2020	180,845
2025	158,525
2030	121,680
2035	187,332
2040	68,329
2045	21,921
2050	4,774
2055	0

Breakdown by Employee/Retiree Group

Exhibit I, attached at the end of the report, shows a breakdown of the GASB 45 components (ARC, AL, Service Cost, and PVFB) by bargaining unit (or non-represented group) and separately by active employees (future retirees) and current retirees.

Net OPEB Obligation and Annual OPEB Cost (AOC)

Exhibit II shows a development of the District's Net OPEB Obligation as of June 30, 2008 through June 30, 2013, and the Annual OPEB Cost ("AOC") for the fiscal years 2008-09 through 2013-14.

Certification

The actuarial certification, including a caveat regarding limitations of scope, if any, is contained in the "Actuarial Certification" section at the end of the report.

We have enjoyed working with the District on this report, and are available to answer any questions you may have concerning any information contained herein.

Sincerely,
DEMSEY, FILLIGER AND ASSOCIATES

T Louis Filliger

T. Louis Filliger, FSA, EA, MAAA
Partner & Actuary

Benefit Plan Provisions

This report analyzes the health and welfare benefit plans of the District including medical, prescription drug, dental, and vision benefits. The medical/prescription drug plans for retirees include three Blue Shield PPO options (100-B $20, 90-E $20, and 80-G $30), two Kaiser HMO options, and Kaiser and Blue Shield high deductible plans. Delta Dental and vision coverage are also available to District employees and retirees. All coverages are provided through Redwood Empire Schools Insurance Group (RESIG).

Eligibility for District-paid Benefits

Certificated and Certificated Management employees are eligible to retire and receive District-paid health benefits after attaining age 55 and completing at least 12 consecutive years of service. Classified, and Confidential/Classified Management employees may retire with District-paid benefits after attaining age 55 and completing at least 12 years of service (8 years for employees hired prior to July 1, 2007). All retirees are subject to a cap on District-paid premiums equal to the total active employee-only premiums for the Kaiser High Option medical, plus dental and vision. This amount is $675.81/month for the 2013-14 year.

District-paid benefits end at age 65. Dependent coverage may be elected and self-paid by the retiree. Employees with full-time equivalencies (FTE) less than 50% are not eligible for District-paid healthcare benefits, either before or after retirement. For Classified, the District cap is pro-rated by 75% or 50% for FTE less than 100%. For Certificated, the District cap is pro-rated by the FTE.

The following table summarizes the monthly premiums for each coverage. The rates shown below became effective on October 1, 2013:

Plan	Ret Only	Ret + 1	Ret + Family
Kaiser High Option	$595.47	$1,280.27	$1,756.65
Kaiser Low Option	497.15	1,068.86	1,466.58
Blue Shield 100% Plan B	848.00	1,717.00	2,419.00
Blue Shield 90% Plan E	782.00	1,578.00	2,221.00
Blue Shield 80% Plan G	685.00	1,381.00	1,943.00
Kaiser High Deductible	386.91	831.86	1,141.39
Blue Shield High Deductible	524.00	1,084.00	1,547.00
Delta Dental	67.72	122.63	176.33
Vision	12.62	23.07	36.31

Valuation Data

Active and Retiree Census

Age distribution of retirees included in the valuation

Age	Count
Under 55	0
55-59	1
60-64	7
65-69	0
70+	0
Total	8
Average Age	61.88

Age/Years of service distribution of active employees included in the valuation

Years→	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
Age									
<25	1								1
25-29	1	0							1
30-34	4	1	2						7
35-39	8	1	2	0					11
40-44	4	5	2	0	0				11
45-49	3	4	2	1	1	1			12
50-54	3	4	2	5	2	0	0		16
55-59	1	5	4	4	8	2	0	0	24
60-64	1	2	2	4	2	5	0	0	16
65+*	1	3	0	0	1	1	0	0	6
All Ages	27	25	16	14	14	9	0	0	105

*not eligible for future District-paid retiree health benefits.

Average Age: 50.68
Average Service: 11.66

Actuarial Assumptions

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

Valuation Date: July 1, 2013

Actuarial Cost Method: Projected Unit Credit

Amortization Method: 30-year level dollar, open period

Discount Rate: 4.0% per annum

Return on Assets: 4.0% per annum

Pre-retirement Turnover: According to the Crocker-Sarason Table T-5 less mortality, without adjustment. Sample rates are as follows:

Age	Turnover (%)
25	7.7%
30	7.2
35	6.3
40	5.2
45	4.0
50	2.6
55	0.9

Pre-retirement Mortality: RP-2000 Combined Mortality, static projection to 2012 by scale AA. Sample deaths per 1,000 employees are as follows:

Age	Males	Females
25	0.33	0.18
30	0.42	0.23
35	0.73	0.42
40	0.98	0.59
45	1.29	0.93
50	1.72	1.36
55	2.88	2.47
60	5.56	4.76

Post-retirement Mortality: RP-2000 Combined Mortality, static projection to 2012 by scale AA. Sample deaths per 1,000 retirees are as follows:

Age	Males	Females
60	5.56	4.76
65	10.75	9.14
70	18.52	15.77
75	31.95	25.52
80	57.06	42.17
85	101.80	72.05
90	174.80	127.02

Actuarial Assumptions (Continued)

Claim Cost per Retiree or Spouse:

Age	Medical/Rx	Dental/Vision
50	$7,426	$964
55	8,609	964
60	9,980	964
64	11,233	964
65	3,932	964
70	4,235	964

Retirement Rates:

Age	Percent Retiring*
55	10.0%
56	12.0
57	15.0
58	18.0
59	20.0
60	22.0
61	25.0
62	30.0
63	35.0
64	40.0
65	100.0

*Of those having met eligibility for District-paid benefits. The percentage refers to the probability that an active employee reaching the stated age will retire within the following year.

Trend Rate: Healthcare costs were assumed to increase according to the following schedule:

FYB	Medical/Rx	Dental/Vision
2013	8.0%	4.0%
2014	7.0	4.0
2015	6.0	4.0
2016+	5.0	4.0

Percent Married: Future retirees: 30%, with male spouses assumed 3 years older than female spouses. Current retirees: actual dependent data was used.

Future District Contribution: Assumed to increase at trend rates for all future years.

Actuarial Certification

The results set forth in this report are based on our actuarial valuation of the health and welfare benefit plans of the Shoreline Unified School District ("District") as of July 1, 2013.

The valuation was performed in accordance with generally accepted actuarial principles and practices. We relied on census data for active employees and retirees provided to us by the District in December, 2013. We also made use of claims, premium, expense, and enrollment data, and copies of relevant sections of healthcare documents provided to us by the District.

The assumptions used in performing the valuation, as summarized in this report, and the results based thereupon, represent our best estimate of the actuarial costs of the program under GASB 43 and GASB 45, and the existing and proposed Actuarial Standards of Practice for measuring post-retirement healthcare benefits. We have assumed no post-valuation mortality improvements, consistent with our belief that there will be no further significant, sustained increases in life expectancy in the United States over the projection period covered by the valuation.

Throughout the report, we have used unrounded numbers, because rounding and the reconciliation of the rounded results would add an additional, and in our opinion unnecessary, layer of complexity to the valuation process. By our publishing of unrounded results, no implication is made as to the degree of precision inherent in those results. Clients and their auditors should use their own judgment as to the desirability of rounding when transferring the results of this valuation report to the clients' financial statements.

The undersigned actuary meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.

Certified by:

T Louis Filliger

T. Louis Filliger, FSA, EA, MAAA Date: 2/19/14
Partner & Actuary

Exhibit I

Shoreline Unified School District
GASB 45 Valuation Results By Employee Group

	7/1/2013 Valuation Results Certificated	7/1/2013 Valuation Results Classified	7/1/2013 Valuation Results Certificated Mgmt	7/1/2013 Valuation Results Conf/Classified Mgmt	7/1/2013 Valuation Results Total All Groups
District-paid Present Value of Benefits					
Actives	$ 1,896,844	$ 1,286,073	$ 105,910	$ 165,079	$ 3,453,906
Retirees	118,890	31,910	87,245	27,617	265,662
Total District-Paid PVFB:	$ 2,015,734	$ 1,317,983	$ 193,155	$ 192,696	$ 3,719,568
District-paid Accrued Liability:					
Actives	$ 978,178	$ 661,551	$ 30,773	$ 77,306	$ 1,747,808
Retirees	118,890	31,910	87,245	27,617	265,662
Total District-Paid AL:	$ 1,097,068	$ 693,461	$ 118,018	$ 104,923	$ 2,013,470
Assets*	-	-	-	-	-
District-paid Unfunded Accrued Liability ("UAL")	**$ 1,097,068**	**$ 693,461**	**$ 118,018**	**$ 104,923**	**$ 2,013,470**
GASB 45 ARC ("Annual Required Contributions")					
Service Cost at Year-end	$ 82,276	$ 72,614	$ 5,850	$ 8,954	$ 169,694
30-year amortization of District-paid UAL	63,443	40,103	6,825	6,068	116,439
Total ARC (District's Annual Expense)	**$ 145,719**	**$ 112,717**	**$ 12,675**	**$ 15,022**	**$ 286,133**

*Assets, if any, allocated in proportion to AL for illustration purposes only. GASB 45 does not provide authority for this calculation.

Shoreline Unified School District **Exhibit II**
Development of Annual OPEB Costs

		Amount
Net OPEB Obligation	**6/30/2008**	**-**
ARC for 2008-9		207,462
Interest on Net OPEB Obligation		-
Amortization adjustment to ARC		-
Annual OPEB Cost 2008-9		**207,462**
Employer Contribution		(157,854)
Net OPEB Obligation	**6/30/2009**	**49,608**
ARC for 2009-10		213,700
Interest on Net OPEB Obligation		9,335
Amortization adjustment to ARC		(15,262)
Annual OPEB Cost 2009-10		**207,773**
Employer Contribution		(157,854)
Change in Net OPEB Obligation 2009-10		49,919
Net OPEB Obligation	6/30/2009	49,608
Net OPEB Obligation	**6/30/2010**	**99,527**
ARC for 2010-11		246,954
Interest on Net OPEB Obligation		4,976
Amortization adjustment to ARC		(6,474)
Annual OPEB Cost 2010-11		**245,456**
Employer Contribution		(121,222)
Change in Net OPEB Obligation 2010-11		124,234
Net OPEB Obligation	6/30/2010	99,527
Net OPEB Obligation	**6/30/2011**	**223,761**
ARC for 2011-12		246,954
Interest on Net OPEB Obligation		11,188
Amortization adjustment to ARC		(14,556)
Annual OPEB Cost 2011-12		**243,586**
Employer Contribution		(93,097)
Change in Net OPEB Obligation 2011-12		150,489
Net OPEB Obligation	6/30/2011	223,761
Net OPEB Obligation	**6/30/2012**	**374,250**
ARC for 2012-13		246,954
Interest on Net OPEB Obligation		18,713
Amortization adjustment to ARC		(24,345)
Annual OPEB Cost 2012-13		**241,322**
Employer Contribution		(90,454)
Change in Net OPEB Obligation 2012-13		150,868
Net OPEB Obligation	6/30/2012	374,250
Net OPEB Obligation	**6/30/2013**	**525,118**
ARC for 2013-14		286,133
Interest on Net OPEB Obligation		21,005
Amortization adjustment to ARC		(30,368)
Annual OPEB Cost 2013-14		**276,770**