498

SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

FROM: Paul McDonnell, Treasurer-Tax Collector
Chairman, Pension Advisory Review Committee (PARC)

SUBMITTAL DATE:
February 16, 2007

SUBJECT: FY 2006/07 Annual Report of the Pension Advisory Review Committee

RECOMMENDED MOTION: That the Board of Supervisors:

(1) Receive and file the FY 2006/07 PARC report;
(2) Adopt the recommendation to use the balance in the Liability Management Fund to reduce the County's CalPERS liability and authorize staff to make the transfer of funds to CalPERS.

(Continued on page 2)

Departmental Concurrence

Paul McDonnell
Treasurer-Tax Collector, Chairman

Ron Komers
Asst. CEO/ HR Director, Member

~~Bill~~ Luna
County Finance Director, Member

FINANCIAL DATA	**Current F.Y. Total Cost:**	$ 0	**In Current Year Budget:**	N/A
	Current F.Y. Net County Cost:	$ 0	**Budget Adjustment:**	N/A
	Annual Net County Cost:	$ 0	**For Fiscal Year:**	2006/07

SOURCE OF FUNDS:

Positions To Be Deleted Per A-30 ☐

Requires 4/5 Vote ☐

C.E.O. RECOMMENDATION: **APPROVE**

County Executive Office Signature

☐ Consent ☑ Policy — Dep't Recomm.:

☐ Consent ☑ Policy — Per Exec. Ofc.:

2007 FEB 21 PM 4:11

COUNTY OF RIVERSIDE
07 FEB 20 PM 12:11
EXECUTIVE OFFICE

Prev. Agn. Ref.: | **District:** | **Agenda Number:**

3.85

Form 11 (Rev 06/2003)

BACKGROUND:

In October 2003, the Board of Supervisors approved the formation of PARC to develop a better understanding of the County's defined benefit pension plan. One of the responsibilities of PARC is to annually report to the Board on the performance of the plan, evaluate strategies to address under-funded and/or over-funded positions, and evaluate changes to the plan.

The Committee, with input from the County's independent actuary John Bartel, has prepared the following report for the Board. The report is the second annual report to be presented.

This report indicates favorable trends in funding status and contribution rate outlook. In contrast to recent reports about increasing costs of pensions, the County's costs have gone down and are not expected to increase as a percentage of payroll. It also provides a recap of savings resulting from the prepayment financing and the refinancing of our prior CalPERS liability. Prepayment savings to the General Fund now total $4.4 million, with an additional $1.9 million to be generated at the end of the FY 2006/07. The issuance of Pension Obligation Bonds has resulted in $ 67.5 million in savings to date.

The Committee is monitoring developments in the OPEB area and will bring back recommendations later this year.

SUMMARY:

The Committee has recommended that the Board:

(1) Receive and file the FY 2006/07 PARC report.

(2) Adopt the recommendation to use money in the Liability Management Fund to reduce the County's CalPERS liability and authorize staff to make the transfer of funds to CalPERS.

Pension Advisory
Review Committee

FY 2006/07 Annual Report

Riverside County
Pension Advisory Review Committee

February 27, 2007

Table of Contents

Appendices

1. Bartel Associates Report
2. Los Angeles Times Article, "Spiraling pension payouts pose threat"

I Executive Summary

Introduction

The County's Pension Advisory Review Committee (PARC) was established in the fall of 2003 to develop an institutional framework to help guide policy decisions about retirement benefits.

A key responsibility of the PARC is to produce an annual report. The report informs the Board and the public about important developments affecting county pension plans and provides information about projected costs and funding status. This is the second annual report.

Pension Plan Status

The value of assets versus benefits payable has improved due to the sustained higher investment rates in past three years. The projected June 30, 2007 gross funding status is approximately 97.1 percent for the county's Safety and Miscellaneous plans. On a net basis, taking into account the Pension Obligation Bond ("POB") liability, the ratio is 89.0 percent, representing an improvement of 3.2 percent since June 2005.

CalPERS' investment performance has been encouraging and has exceeded the system's assumed actuarial rate of return; performance over the last three years has averaged 13.63 percent, compared to an average of 0.3 percent for 2000 to 2003.

The county's employer-rate outlook is positive, based upon improved investment performance and a higher funding ratio. CalPERS new rate smoothing technique makes rates less volatile. Actuarial projections show that sustained deviation from the assumed rate of 7.75 percent will now take seven to 10 years to move rates up or down.

Financing Status Report

As mentioned above, bond issues helped improve funding status and reduce rates. From an economic perspective, our actuarial report indicates **a benefit of over $67.5 million** since their issuance in 2005. One aspect of our POB structure was to capture a portion of the savings and use it to accelerate scheduled debt reduction. Our 2.9 percent unfunded liability with CalPERs equates to $172.4 million. The Committee therefore has recommended sending the estimated balance of $ 5.7 million to CalPERS with instructions to pay down the existing liability.

Many pension systems, including CalPERS, have for years offered early payment discounts in lieu of periodic payments coinciding with payroll disbursements. PARC first recommended seizing this opportunity in 2004 and continues to do so. **This year's (FY**

2006-2007) prepayment is expected to generate $1.9 million in cash-flow benefit, coming on the heels of prior-year savings totaling $4.4 million.

Assembly Bill No. 2863-Flood, Waste and Parks

Subsequent to the adoption of 3% @ 60 benefits it became clear that service with related County entities was treated by CalPERs as though it were earned at a separate agency, and therefore not eligible for 3% @ 60.

Assembly Bill No. 2863 ("AB 2863") adjusts pension benefits retroactively to members who worked for the Flood Control and Water Conservation District, the Regional Park and Open Space District, and the Water Resources Management District on or before July 11, 2002.

For the County there are 119 active members and 6 retiree members affected. The County will see a $2 million increase in the county's actuarial liability and a $251 thousand annual increase on average for the next 20 years for its annual pension cost as a result of the adoption of AB 2863.

OPEB Update

The PARC recommended that the County explore pre-funding options for the "hard liability" on its September 12, 2006 report to the Board and $10 million was set aside to pre-fund the County's "hard liability".

PARC is currently exploring the CalPER's Pre-funding Plan which is a trust intended for Other Post Employment Benefits ("OPEB") and consists of pooled administrative and investment functions as a pre-funding vehicle for the County's OPEB hard liability. The CalPERS option offers a good actuarial investment rate at a marginally low cost. Other options are also being explored.

Recommendations

1 Receive and file the FY 2006/07 PARC report.

2 Adopt the recommendation to use money in the liability management fund to reduce the County's CalPERS liability and authorize staff to transfer funds to CalPERS. The amount available for transfer is estimated to be $5.7 million for FY 06/07.

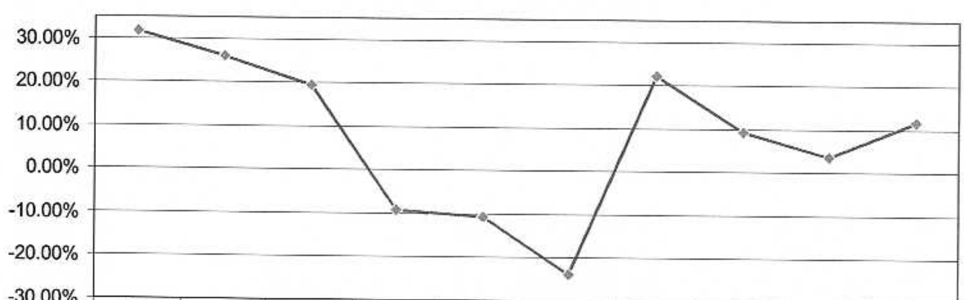
II Plan Funding Status

Funding status, the value of assets versus benefits payable, has increased due to sustained improvement in the investment returns.

Market Summary. Most of the market and economic news for 2006 was positive. Personal consumption drove the economy, as measured by GDP, to expand at a 3.4 percent pace, a 0.2 percent improvement from the healthy expansion of 2005. During the same period of time inflation declined slightly. The capital markets performed as follows:

- The S&P 500 was up approximately 11 percent for calendar year 2006 with the Down Jones Industrial Average and NASDAQ following suit.
- The Federal Funds rate is now 5.25 percent and yields on US Treasury securities moved up on average 50 basis points during the 2006 calendar year.
- The real-estate market has slowed but is holding steady.

S&P 500 Annual Returns



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
S&P 500	31.67%	26.07%	19.64%	-9.27%	-10.54%	-23.80%	22.32%	9.33%	3.84%	11.78%

CalPERs earned an investment return of 11.94 percent in FY 2006. The Portfolio market value reached a record $223.5 billion in October 2006. It was invested as follows:

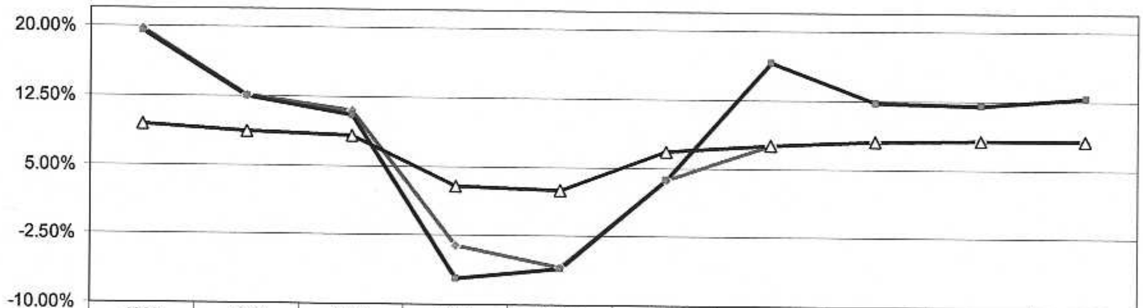
1. $53.1 billion or 23.8% of the portfolio in Cash, Global Fixed Income and Direct/Partnerships
2. $139.9 billion or 62.6% of the portfolio in Domestic and International Equities
3. $16.8 billion or 7.5% of the portfolio in Real Estate

Current Return (MVA)[1]. FY 2007 is projected to have an investment return of 12.8 percent, bringing the average rate of return (MVA) since 2000 to 6.8 percent. This includes the years of severe market downturn following the burst of the "dot com" bubble.

[1] CalPERS refers to the actual market return as MVA rate and the "actuarial rate of return" as AVA rate; the AVA rate is CalPERS "smoothed" rate of return and it is the rate used to value assets on deposit with CalPERS.

CalPERS' investment performance has generally mirrored performance in the capital markets.

CalPERS Annual Returns (2)



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
AVA Rate	19.81%	12.56%	10.97%	-3.61%	-5.89%	3.73%	7.60%	8.00%	8.20%	8.20%
MVA Rate	19.50%	12.50%	10.50%	-7.20%	-6.00%	3.70%	16.60%	12.30%	12.00%	12.80%
AVA New	9.40%	8.63%	8.30%	2.79%	2.51%	6.80%	7.60%	8.00%	8.20%	8.20%

Source: Bartel & Associates

The recent investment return has improved CalPERS' actuarial rate of return. For 2007, the projected annual market rate of return is greater than the assumed actuarial rate of return of 7.75 percent. This indicates that there will be an upward pressure on the current actuarial rate of 8.2 percent in the coming years. The following are 5 and 10 year average market returns and actuarial returns for the former smoothing method and the new smoothing method.

Market and Actuarial average rates (2)

	5 Year Average	10 Year Average
AVA Rate	7.1%	6.8%
MVA Rate	11.5%	8.7%
AVA New	7.8%	6.9%

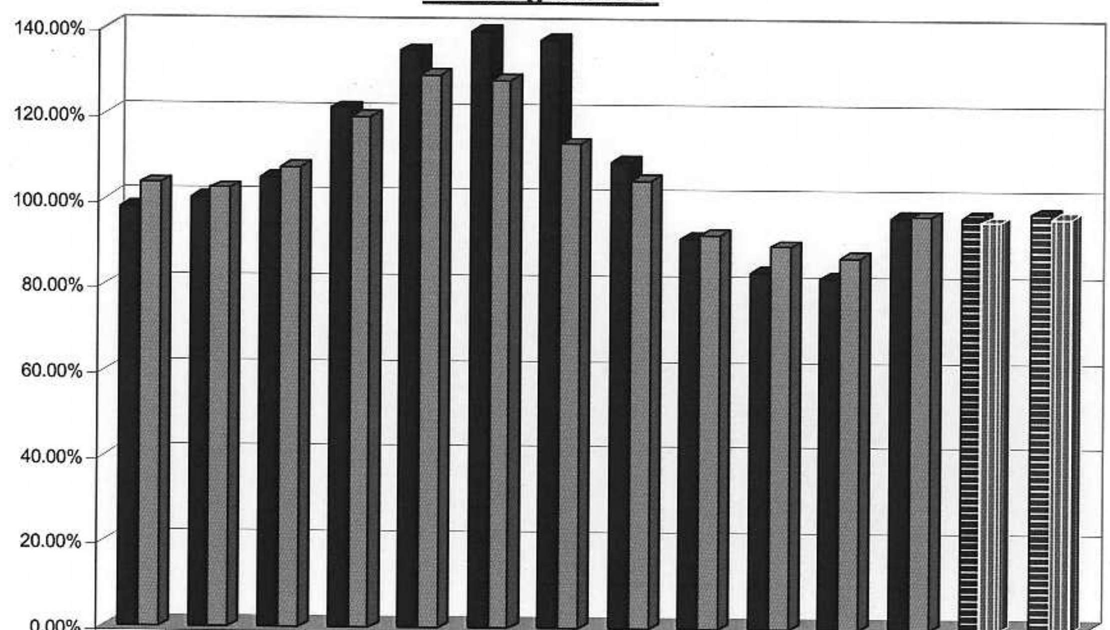
[2] Annual returns for Miscellaneous and Safety plans weighted by asset values.

Current Funding Status. Bartel & Associates forecasts that as of June 30, 2007, the County will have an unfunded liability of $109.6 million for the Miscellaneous plan and $62.8 million for the Safety plan. (The most recent CalPERS report has a valuation date of June 30, 2005, thus the need to forecast.) (See Appendix.1)

The projected June 30, 2007 CalPERS funding status for the miscellaneous and safety plans is 97.4 percent and 96.4 percent, respectively. On a net basis (including the outstanding POB liability of $392.9 million) the funding levels are 88 percent for the Miscellaneous plan and 91 percent for the Safety plan.

The following graph shows the Miscellaneous and Safety plans' funded status over the last several years (expressed as a ratio of asset to liability):

Funding Status[3]



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Misc. Plan	97.94%	100.41	105.22	121.53	134.86	139.49	137.35	109.06	91.42%	83.47%	82.19%	96.56%	96.48%	97.43%
Safety Plan	103.76	102.51	107.38	119.32	129.24	128.12	113.21	104.66	92.16%	89.58%	86.91%	96.69%	95.46%	96.40%

[3] Gross funding only. Accounting for bond liability reduces the net funding levels to 88 percent and 91 percent for the Miscellaneous plan and the Safety plan, respectively.

Comparison with neighboring counties. Pension funding status typically does not include the POB liability. A fair comparison would reduce funding status by the amount of any POBs outstanding. The following table provides the 2005 funding status for Riverside County and some southern California counties.

Funding Status of Southern Counties Pension Plans

COUNTY	FUNDING STATUS[1]	UNFUNDED ACTUARIAL LIABILITY[1]	OUTSTANDING PENSION OBLIGATION BONDS[1]	NET PENSION LIABILITY	NET FUNDING STATUS[2]	REPORT DATE
Ventura	85.74%	368,676,000	55,000,000	423,676,000	83.95%	06/30/2005
Los Angeles	85.80%	4,878,000,000	1,454,542,000	6,332,542,000	82.31%	06/30/2005
Riverside	**95.38%**	**165,159,939**	**400,000,000**	**565,159,939**	**85.79%**	**06/30/2005**
Orange	71.53%	2,303,010,000	111,772,000	2,414,782,000	70.56%	12/30/2005
Santa Barbara	85.60%	243,808,000		243,808,000	85.60%	06/30/2005
San Bernardino	91.08%	465,490,000	903,434,000	1,368,924,000	77.64%	06/30/2005
San Diego	80.30%	1,378,400,000	1,252,243,000	2,630,643,000	68.11%	06/30/2005

[1] Source: 2005 Comprehensive Annual Financial Report and/or Annual Pension Report
[2] Extrapolated

The 2006 Wilshire Report on City & County Retirement Systems found that of the 66 city and county retirement systems in its study that provided actuarial data for 2005, 77 percent have Unfunded Liabilities. The average under-funded plan has a ratio of assets-to-liabilities or funding status equal to 81 percent.

Source: 2006 Wilshire Report on City & County Retirement Systems: Funding Levels and Asset Allocation.

Unfunded Actuarial Liability . In absolute terms the Miscellaneous and Safety plans unfunded liability grew by $2.6 million and $4.6 million, respectively from the levels of June 30, 2005. Although, the unfunded liability grew in absolute terms, it slightly decreased as a percentage of total assets.

The increase of the actuarial unfunded liability in the Miscellaneous and Safety plans was caused by a higher than expected increase in salaries and higher than expected increase in the level of personnel (active, inactive and retirees).

CalPERs requires that participating employers on an annual basis contribute an amount sufficient to cover currently accruing benefits. That amount is estimated and based on various actuarial assumptions. When the annual employer's contribution is made based on underestimated actuarial assumptions, an unfunded liability is created.

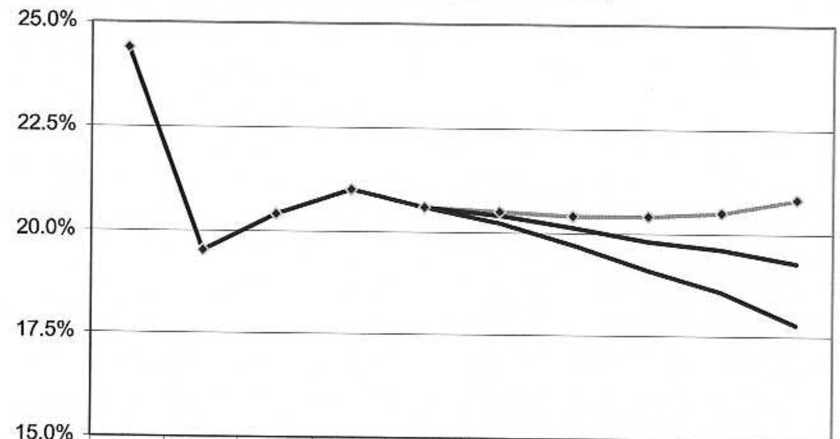
III Employer Rate Outlook

Actuarial projections show that sustained investment rate of return deviations from the assumed rate of 7.75 percent will now take seven to 10 years to move the actual actuarial rates up or down. **The County's employer rate outlook is favorable, based on improved investment performance and a higher funding ratio.**

If CalPERS were to underperform for a sustained period, the impact upon rates would be delayed and it would also take longer to return to the target rate which is based upon 7.75%. This is not an immediate concern, but the Committee will monitor this annually and could recommend making higher payments than CalPERS requires as a hedge against sustained underperformance in such a case.

In the graph below, employer rate projections are shown for three different investment return scenarios.

Projected Safety Contribution[4]



	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14
4.30%	24.4%	19.5%	20.4%	21.0%	20.6%	20.5%	20.4%	20.4%	20.5%	20.8%
7.75%	24.4%	19.5%	20.4%	21.0%	20.6%	20.4%	20.1%	19.8%	19.6%	19.3%
11.60%	24.4%	19.5%	20.4%	21.0%	20.6%	20.2%	19.7%	19.1%	18.6%	17.8%

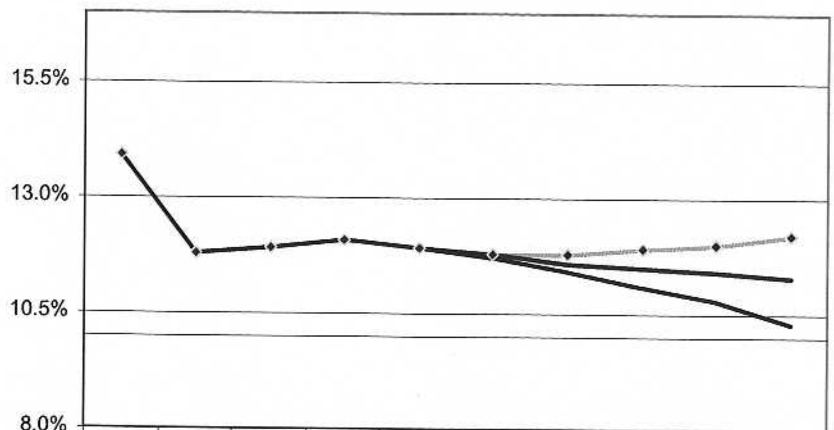
Source: Bartel Associates

If CalPERs meets its target rate of 7.75 percent, rates will actually decline.

[4] Includes POB debt service. The three investment scenarios correspond to the 75%, 50% and 25% confidence level, see Appendix.

In the graph below, employer rate projections are shown for three different investment return scenarios.

Projected Miscellaneous Contribution[5]



	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14
4.30%	13.9%	11.8%	11.9%	12.1%	11.9%	11.8%	11.8%	11.9%	12.0%	12.2%
7.75%	13.9%	11.8%	11.9%	12.1%	11.9%	11.8%	11.6%	11.5%	11.4%	11.3%
11.60%	13.9%	11.8%	11.9%	12.1%	11.9%	11.7%	11.4%	11.1%	10.8%	10.3%

Source: Bartel Associates

The County's Safety Plan costs declined by 20.1 percent and the Miscellaneous Plan costs increased by a modest 5.7 percent from 2004-05 to 2005-06. Riverside County's pension cost for both pension plans include POB debt service. Over the next seven years the County's pension costs are projected to decline slightly for both Safety and Miscellaneous pension plans.

[5] Includes POB debt service. The three investment scenarios correspond to the 75%, 50% and 25% confidence level, see Appendix.

IV Financing Status Update

Pension Obligation Bonds. The county sold a $400 Pension Obligation Bond (POB) in February 2005. Projections at the time showed the POBs were expected to save $161.8 million over the life of the bonds. The projections assumed CalPERS earned its 7.75 percent assumed actuarial rate of return over the life of the bonds. The "break-even" rate for the bond transaction is 4.91 percent, the rate on the POBs.

To date, based upon the analysis of independent actuary John Bartel, the county has saved $67.8 million, as shown in the calculation below.

Analysis of Performance to date[6] (in millions)

+	CalPERS Investment Earnings[7]	$108.9
-	POB Interest Payments	37.9
-	Cost of Issuance	3.1
=	Net Savings	$67.8

Liability Management Fund. One key aspect incorporated into the POB structure is the Liability Management Fund. The fund collects an amount representing 50 percent of the projected savings that would otherwise be passed on to departments. The purpose is to accelerate repayment of the County's pension liabilities, reducing pension costs in the long term and reducing the marginal risk associated with issuing POBs.

PARC policy dictates that at the end of the year the committee is to recommend whether the funds should pay down any liability at CalPERS or buy down POBs. As of December 31, 2006 there is $3.4 million in the Liability Management Fund. It is projected that fiscal year ending balance will be approximately $5.7 million.

The Unfunded Actuarial Liability's assumed rate of return is 7.75 percent more expensive than the Pension Obligation bonds interest rate of 4.91 percent, the imputed rate of return if we exercised our call option. Another option would be to purchase the bonds in the open market. The implied rate of return today would be greater than 6%. Therefore, the County should use the balance to pay down the County's Unfunded Actuarial Liability in FY 2007. In FY 2006 $5.1 million was used to pay down the County's Unfunded Actuarial Liability.

CalPERS Annual Prepayment. One of the first steps PARC initiated was the annual prepayment program. CalPERS offers participants a discount for prepaying its projected annual employer's pension cost in a lump sum at the beginning of the fiscal year. The discount amounts to 50 percent of CalPERS' assumed actuarial return.

[6] Provided by Bartel Associates. It should be noted that there could be any number of alternative calculation methods, but the results would not vary substantially at this point.

[7] On POB proceeds only.

Since FY 2004 the General Fund has netted approximately $6.3 million by executing the CalPERS prepayment program, which takes advantage of the prepayment discount and associated internal cash flows.

For FY 2006/07 the county is obligated to pay $107 million[8], which is the employer's projected contribution for "normal" pension cost.

The PARC recommend that two thirds of the projected $107 million annual pension cost be prepaid. The savings for prepaying that portion of the normal cost for fiscal year 2006/07 is $1.91 million (see graph below).

Summary Prepayment Savings (000,000's)

		FY 2004	FY 2005	Projected FY 2006
	Total Normal Cost	$ 119.41	$ 97.74	$ 107.05
	Normal Cost Prepaid	107.47	87.96	71.37
+	PERS discount	4.18	3.22	2.61
+	Interest earned	1.47	1.59	1.89
-	Net Borrowing cost	2.73	3.31	2.59
=	**Savings**	**$ 2.92**	**$ 1.50**	**$ 1.91**

It is fully anticipated that for the coming fiscal year (2007-08) that the prepayment program will continue. The savings will likely be in an amount similar to the amount for FY 2006-07.

[8] Amount is projected by CalPERS, actual obligation may differ.

V. Assembly Bill No. 2863

Subsequent to the County's approval of the 3% at 60 benefit, it became clear that prior service with related county entities (i.e., Flood, Waste and Parks) was calculated at the lower rate. Consequently, under the current scheme, retirement benefits will be lower for these employees. Assembly Bill No. 2863 ("AB 2863"), which was signed into law, contains provisions to allow the County to correct the problem. The County will see a $2 million increase in the County's actuarial liability and a $251,000 annual increase, on average, for the next 20 years for its annual pension cost as a result of the adoption of AB 2863.

AB 2863 provides members with previous service with the County of Riverside and its three special districts (the Flood Control and Water Conservation District, the Regional Park and Open Space District, and the Water Resources Management District) to have that service covered under the 3% @ 60 retirement formula if the member was active on or after July 11, 2002. This bill applies to persons employed by any of the agencies mentioned above at the present time, as well as to persons with such service in the past who are returning to work with any of these agencies at any time in the future.

As of the June 30, 2004 actuarial valuation, the number of members affected by the proposed changes is 201 non retired members and 8 retired members for the County and its three special districts. Below is a breakdown of the affected members by the County, and the three special districts:

Break Down of Affected Members

Employer Name	No. of Non-Retired members	No. of Retired members
County of Riverside	119	6
Flood Control and Water Conservation District	38	2
Regional Park and Open Space District	16	0
Waste Resources Management District	28	0
Total Number of members	**201**	**8**

Based on a 20-year amortization, payments will increase by 3.25 percent per year starting at $177,000 in year 1 and ending at $325,000 in year 20. For the County of Riverside, the increase in accrued liability for the 119 non-retired members and the 6 retired members was amortized over a period of 20 years. The following table summarizes the estimated cost impact of AB 2863 for the County of Riverside:

Estimated Cost Impact on the County

Riverside County	Change due to AB 2863
Estimated Increase in Present Value of Benefits (PVB)	$2,016,000
Estimated Increase in Accrued Liability (AL)	
Non-Retired	1,935,000
Retired	81,000
Estimated Increasese in Total AL	2,016,000
Estimated Increase in employer Rate (% of Payroll)	**0.03%**

VI OPEB Liability

The PARC recommended that the County explore pre-funding options for the "hard liability" on its September 12, 2006 report to the Board and $10 million was set aside to pre-fund the County's "hard liability". The "hard liability" represents the present value of the County's monthly contribution to retiree health care.

The liability pertaining to the implied subsidy resulting from the pooling of active and Pre 65 retirees for purposes of Health care insurance will be reported but not funded. This liability is borne by active employees and does not represent a true county financial liability. Additionally the practice of pooling active and pre-65 retires is being phased out within the next five years.

Pre-funding the "hard liability" will dramatically reduce costs over the long term, assuming an appropriate investment trust can be established to invest the assets. Investment earnings from the pre-funded assets will supplement the County's contribution for retiree health costs in the future. For example, the AON report dated September 12, 2006 indicates that pre-funding via a trust would reduce the County's "hard liability" from approximately $70 million to $43 million, because the increased earnings that are generated from a higher Investment rate are used to supplement and reduce the future need for County contributions.

In the short-term there will be a cash flow impact because the amount of the annual contributions will go up. Longer-term the annually required contributions would be more uniform.

PARC is currently exploring the CalPER's Pre-funding Plan which is a trust intended for Other Post Employment Benefits and consists of pooled administrative and investment functions. Currently CalPERs offers the Pre-funding plan to Public Employees' Medical and Hospital Care Act (PEMCHA) plan participants, but it is expected to be extended all CalPERS Pension plan participants. The CalPERS option offers a good actuarial investment rate at a marginally low cost.

Setting up a trust managed by a fund manager and contracting with a 1937 Act county are other options being explored.

VII Recommendations

1 Receive and file the FY 2006/07 PARC report.

2 Adopt the recommendation to use money in the Liability Management Fund to reduce the County's CalPERS liability and authorize staff to transfer funds to CalPERS. The amount available for transfer is estimated to be $5.7 million for FY 06/07.

APPENDIX 1
Bartel Associates Report

COUNTY OF RIVERSIDE
SAFETY & MISCELLANEOUS PLANS

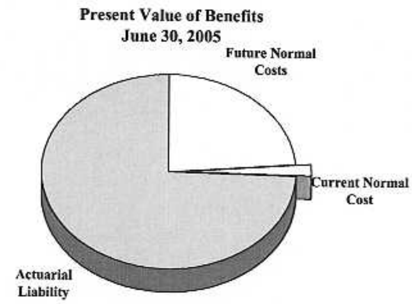
CalPERS Actuarial Issues – 6/30/05 Valuation

JOHN E. BARTEL
BARTEL ASSOCIATES, LLC

February 5, 2007

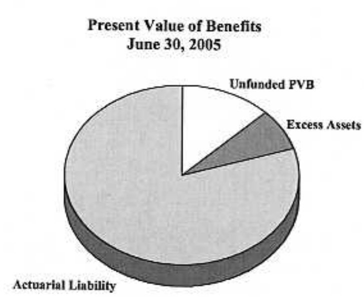
Agenda

Definitions



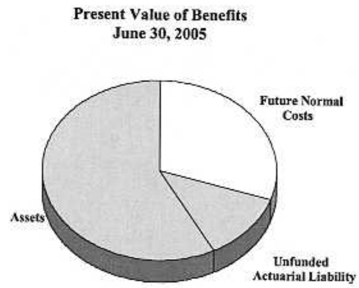
- **PVB - Present Value of all Projected Benefits:**
  - Discounted value (at valuation date - 6/30/05), of all future expected benefit payments based on various (actuarial) assumptions
- **Actuarial Liability:**
  - Discounted value (at valuation date) of benefits earned through valuation date [value of past service benefit]
  - Portion of PVB "earned" at measurement
- **Current Normal Cost:**
  - Portion of PVB allocated to (or "earned" during) current year
  - Value of employee and employer current service benefit

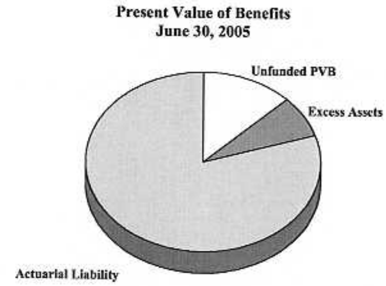
Definitions



- **Target-** Have money in the bank to cover Actuarial Liability (past service)
- **Unfunded Liability** - Money short of target <u>at valuation date</u>
- **Excess Assets / Surplus:**
  - Money over and above target <u>at that point in time</u>.
  - Doesn't mean you're done contributing.
- **Super Funded:**
  - Assets cover whole pie (PVB)
  - If everything goes exactly like PERS calculated, you'll never have to put another (employer or employee) dime in.

Definitions





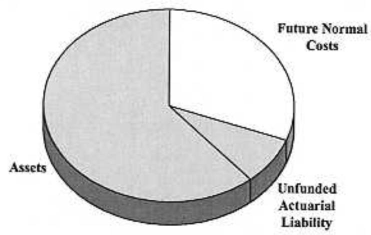
- Contribution =
  - Normal Cost
  - + Unfunded Liability Amortization
    or
  - - Excess Asset Amortization

Plan Funded Status
Safety

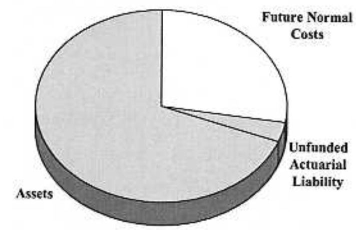
- Future events that might cause rate fluctuations:
  - Asset Gains/Losses:
    - ☐ Smoothing will not mitigate upcoming asset losses
  - Experience Gains/Losses (somewhat mitigated because of smoothing):
    - ☐ Disabilities
    - ☐ Salaries
    - ☐ Retirements
  - Air Time Service Purchase

Plan Funded Status
Safety

Present Value of Benefits
June 30, 2004



Present Value of Benefits
June 30, 2005



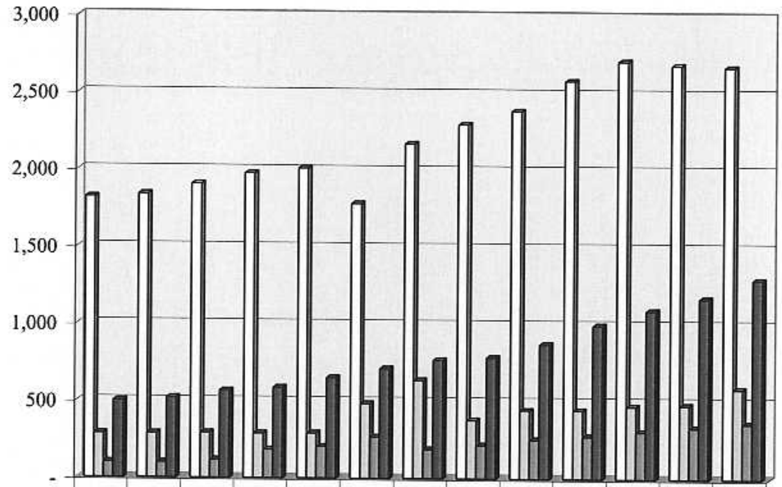
June 30, 2004		June 30, 2005
$ 507,200,000	**Unfunded PVB**	$ 447,200,000
(133,700,000)	**(Unfunded Liability)**	(58,200,000)
1,021,100,000	**Actuarial Liability**	1,127,200,000
1,394,600,000	**PVB**	1,516,200,000

Plan Funded Status
Safety

- What happened between 6/30/04 and 6/30/05?
  - Asset gain/(loss): ≈ 2.0 million
  - Actuarial gain/(loss): ≈ (19.7) million
    - ☐ Average Salary $60,200 → $63,200
    - ☐ Number of Actives 2,684 → 2,670
    - ☐ Number of Inactives 811 → 944
    - ☐ Number of Retirees 1,168 → 1,292
  - Contribution gain/(loss): ≈ 82.4 *million
    - ☐ Expected ≈ (60.1)
    - ☐ Actual ≈ 142.5
  - Expected UAL Decrease/(Increase): ≈ 10.8 million

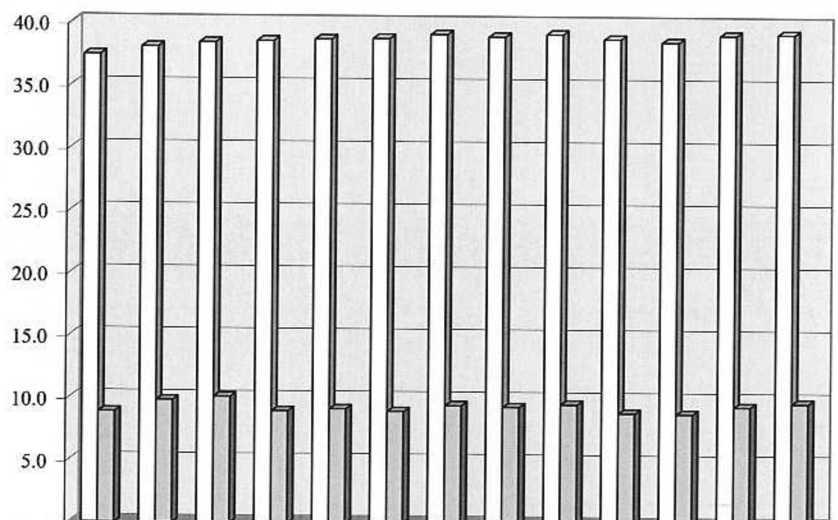
*Includes POB proceeds $85.7 million

Members Included in Valuation
Safety



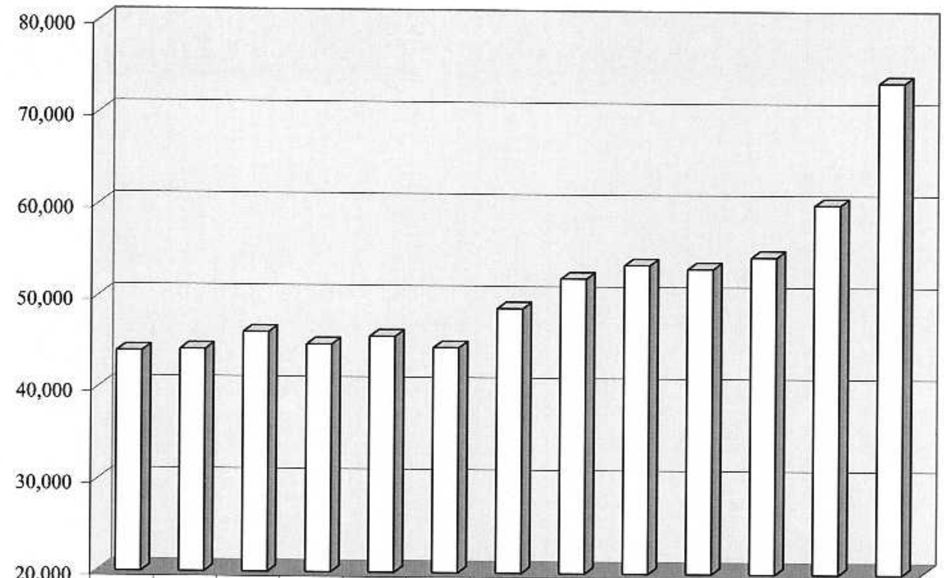
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
□ Active	1,820	1,839	1,906	1,976	2,010	1,782	2,172	2,296	2,385	2,581	2,708	2,684	2,670
□ Transfers	288	289	294	289	292	485	636	378	444	444	470	479	584
■ Vested Terminations	103	100	119	185	205	269	189	217	254	274	306	332	360
■ Receiving Payments	501	520	567	586	651	711	767	785	872	993	1,090	1,168	1,292

Average Age/Service
Safety



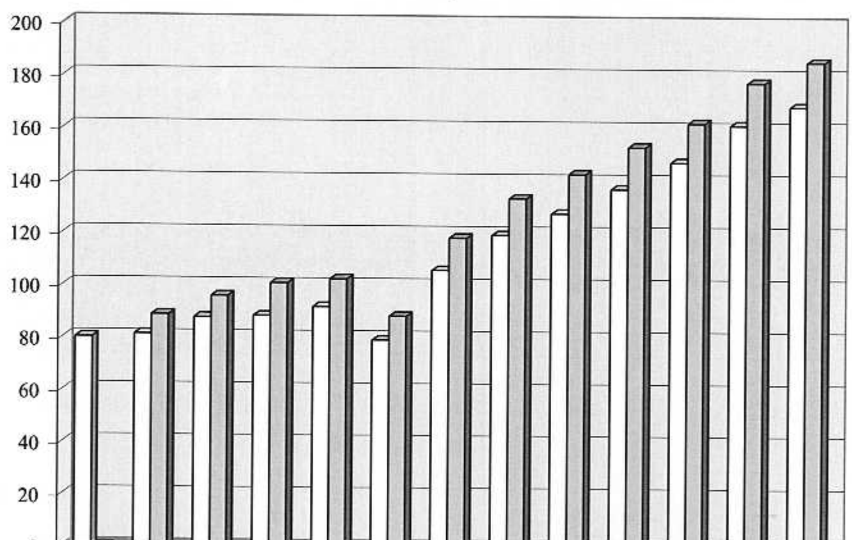
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
□ Average Age	37.4	38.1	38.4	38.6	38.7	38.8	39.1	39.0	39.2	38.8	38.6	39.1	39.2
□ Average Service	8.9	9.8	10.1	9.0	9.2	9.0	9.5	9.4	9.6	8.9	8.9	9.5	9.8

Average PERSable Wages
Safety



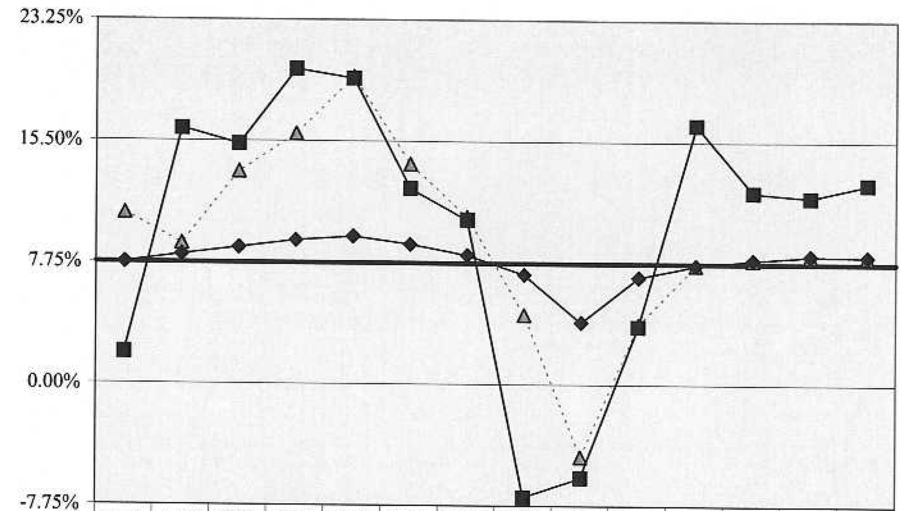
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
□ Average	44,000	44,200	46,100	44,800	45,700	44,500	48,800	52,100	53,600	53,200	54,500	60,200	73,500

Total Annual PERSable Wages (Millions)
Safety



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
□ Current	80.1	81.3	87.8	88.5	91.9	79.3	106.0	119.6	127.8	137.2	147.5	161.6	168.8
□ Projected	-	88.8	95.9	101.0	102.6	88.5	118.4	133.5	142.8	153.2	162.4	177.9	185.8

Actuarial Investment Return
Safety

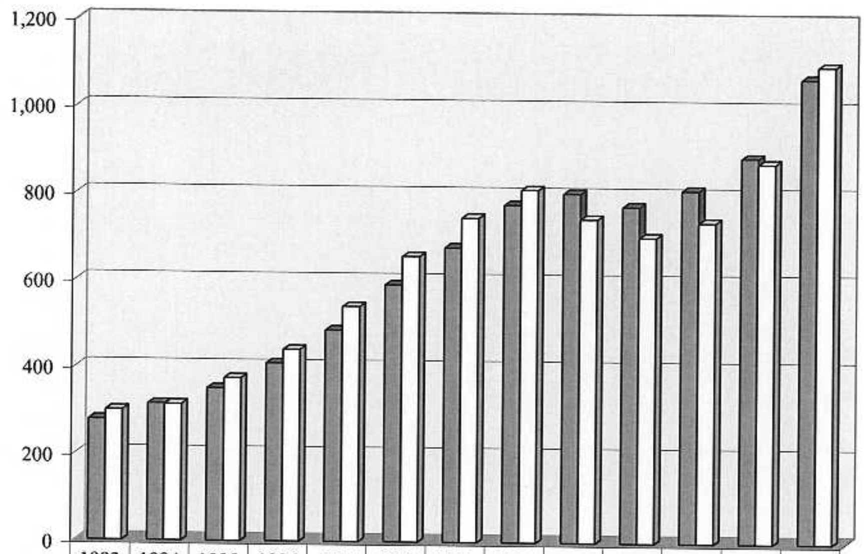


	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
AVA Rate	10.9%	9.0%	13.6%	16.0%	19.6%	14.0%	10.7%	4.4%	-4.6%	3.8%	7.6%	8.0%	8.2%	8.2%
MVA Rate	2.0%	16.3%	15.3%	20.1%	19.5%	12.5%	10.5%	-7.2%	-6.0%	3.7%	16.6%	12.3%	12.0%	12.8%
AVA New	7.7%	8.3%	8.7%	9.2%	9.4%	8.9%	8.3%	7.0%	4.0%	6.8%	7.6%	8.0%	8.2%	8.2%

Actuarial Investment Return
Safety

- Above assumes contributions, payments, etc. received evenly throughout year.
- 6/30/05:
  - Market Value return ≈ 12.26%
  - Actuarial Value return ≈ 7.9%
- 6/30/06:
  - Market Value return ≈ 11.94%
  - Actuarial Value return ≈ 8.2%
- 6/30/07:
  - Market Value return through 10/31/06 ≈ 7.33%
  - Estimated Annualized MVA Return ≈ 12.8%
  - Estimated Annualized AVA Return ≈ 8.2%

Asset Values (Millions)
Safety

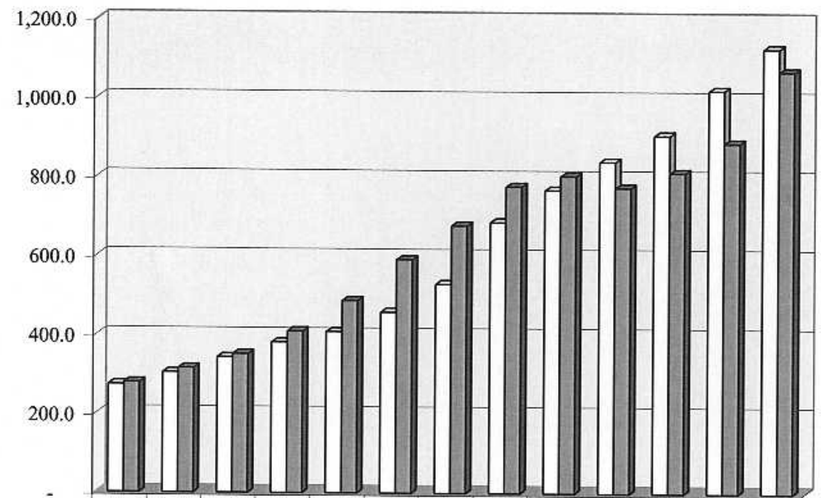


	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
■ Actuarial	278.2	314.6	351.0	408.8	486.0	591.0	677.5	777.1	803.9	774.0	812.0	887.4	1,069.
□ Market	300.1	313.6	374.4	440.6	540.0	656.7	746.0	811.6	744.7	703.6	738.2	873.8	1,097.

Asset Values
Safety

- 6/30/01 Actuarial Value ≈ 108% Market
- 6/30/02 Actuarial Value ≈ 110% Market
- 6/30/03 Actuarial Value ≈ 110% Market
- 6/30/04 Actuarial Value ≈ 101% Market
- 6/30/05 Actuarial Value will be ≈ 98% Market
- 6/30/05 Actuarial Value will be ≈ 104% Market

Funded Status (Millions)
Safety



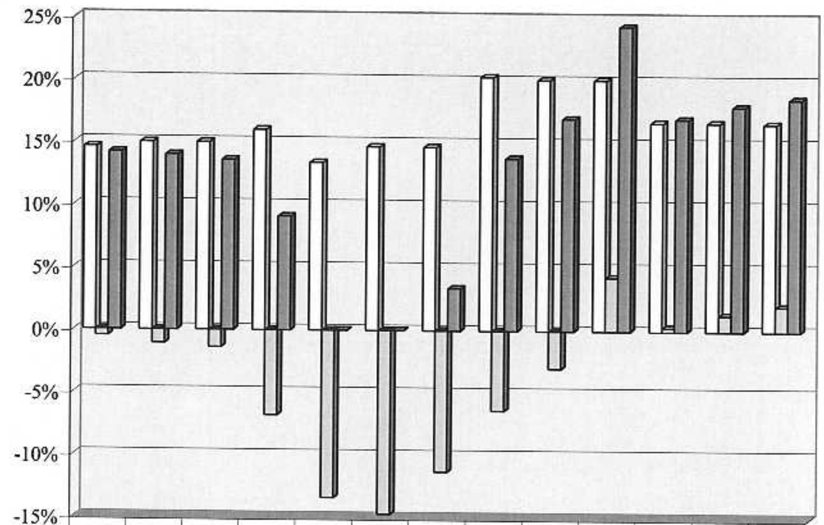
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
□ Actuarial Liability	272.5	303.2	342.4	380.7	407.3	457.3	528.8	686.4	768.1	839.8	906.5	1,021	1,127
■ Actuatial Asset Value	278.2	314.6	351.0	408.8	486.0	591.0	677.5	777.1	803.9	774.0	812.0	887.4	1,069

Funded Status
Safety

- Actuarial assumptions:
  - Interest rate
    - □ General inflation — 3.00%
    - □ Real rate of return — 4.75
    - □ Total — 7.75
  - Payroll growth — 3.25%
- Investment gains – Impact on funded status:
  - 6/30/06 [11.94% compared to 7.75%] — +4.2%
  - Actuarial asset "reserve" — 2.6%
  - Total estimated % gain — 6.8%
  - Total estimated unrecognized gain [6.8% x $ 1,097] — $ 74.4 million

			Projected	
	6/30/04	6/30/05	6/30/07	6/30/37
■ UAL (millions)	$133.7	$58.2	$62.8	$98.7

Contribution Rates
Safety



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
□ Normal Cost	14.6%	15.0%	15.0%	16.0%	13.4%	14.7%	14.7%	20.3%	20.1%	20.1%	16.7%	16.7%	16.6%
□ UAL Amort	-0.5%	-1.1%	-1.4%	-6.8%	-13.4	-14.7	-11.3	-6.4%	-3.0%	4.3%	0.3%	1.3%	2.0%
■ Total	14.2%	14.0%	13.6%	9.1%	0.0%	0.0%	3.4%	13.8%	17.0%	24.4%	17.0%	18.0%	18.6%

Contribution Rates
Safety

	6/30/04 2006/2007	6/30/05 2007/2008
■ Normal cost	**16.7%**	**16.6%**
■ Amortization bases:		
● (Gain)/Loss	1.5%	2.2
● Fresh Start	-0.2%	-0.2
Sub-total	1.3%	2.0%
● **Total:**	**18.0%**	**18.6%**
● Amortization period	30 years	30 years

- What Happened from 6/30/04 to 6/30/05:
  - 2006/07 Rate 18.0%
  - (Gains)/Losses 0.6
  - 2007/08 Rate 18.6%

Contribution Projections
Safety

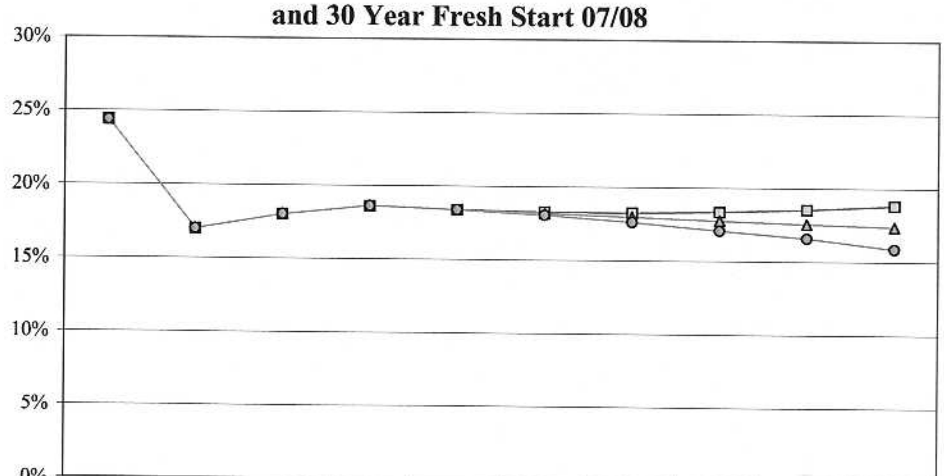
- Market Value Investment Return:
  - June 30, 2006 — 11.94%
  - June 30, 2007 - 2011 — 75% Confidence Limit*: ≈ **4.3%**
    - 50% Confidence Limit: ≈ **7.75%**
    - 25% Confidence Limit: ≈ **11.6%**

*Confidence Limits – Actual Return will exceed the given rate with indicated probabilities

- Fresh Starts:
  - **30 Year Fresh Start for 07/08**
  - 15 Year +1.1% 20 Year +0.5% 25 Year +0.2%
- No Other:
  - Gains or Losses
  - Method or Assumption Changes
  - Benefit Improvements

Contribution Projections
Safety

Investment Return Varies
and 30 Year Fresh Start 07/08



	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14
75th	24.4%	17.0%	18.0%	18.6%	18.4%	18.3%	18.3%	18.4%	18.6%	18.8%
50th	24.4%	17.0%	18.0%	18.6%	18.4%	18.2%	18.0%	17.8%	17.6%	17.4%
25th	24.4%	17.0%	18.0%	18.6%	18.4%	18.1%	17.6%	17.1%	16.6%	15.9%

Contribution Projections
Safety

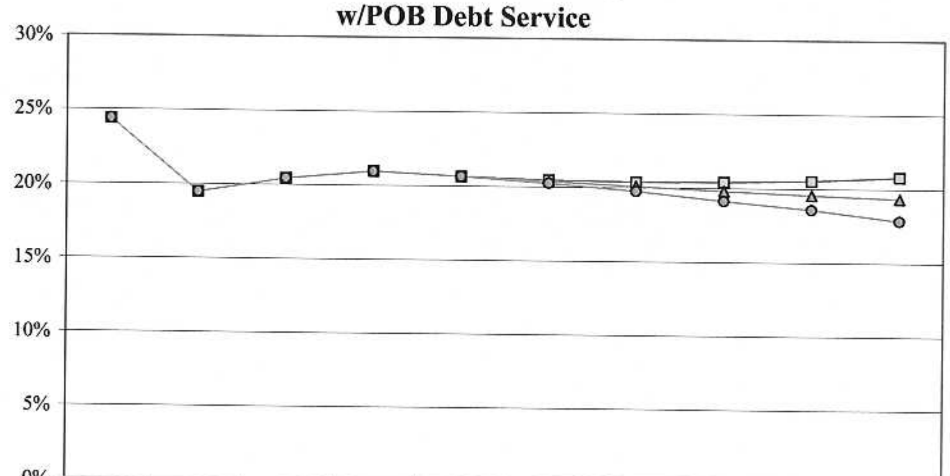
- Market Value Investment Return:
  - June 30, 2006 — 11.94%
  - June 30, 2007 - 2011
    - 75% Confidence Limit*: ≈ **4.3%**
    - 50% Confidence Limit: ≈ **7.75%**
    - 25% Confidence Limit: ≈ **11.6%**

*Confidence Limits – Actual Return will exceed the given rate with indicated probabilities

- Fresh Starts:
  - **With POB Debt Service**
- No Other:
  - Gains or Losses
  - Method or Assumption Changes
  - Benefit Improvements

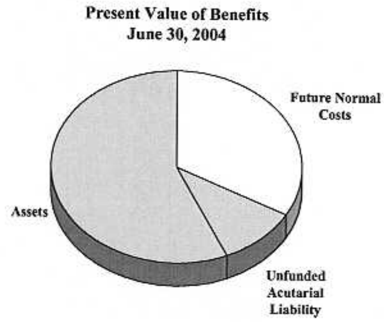
Contribution Projections
Safety

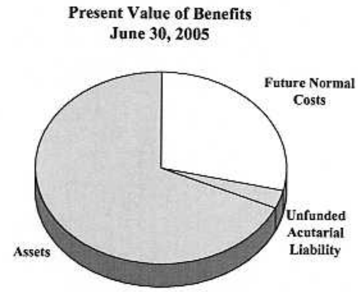
Investment Return Varies w/POB Debt Service



	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14
75th	24.4%	19.5%	20.4%	21.0%	20.6%	20.5%	20.4%	20.4%	20.5%	20.8%
50th	24.4%	19.5%	20.4%	21.0%	20.6%	20.4%	20.1%	19.8%	19.6%	19.3%
25th	24.4%	19.5%	20.4%	21.0%	20.6%	20.2%	19.7%	19.1%	18.6%	17.8%

Plan Funded Status
Miscellaneous





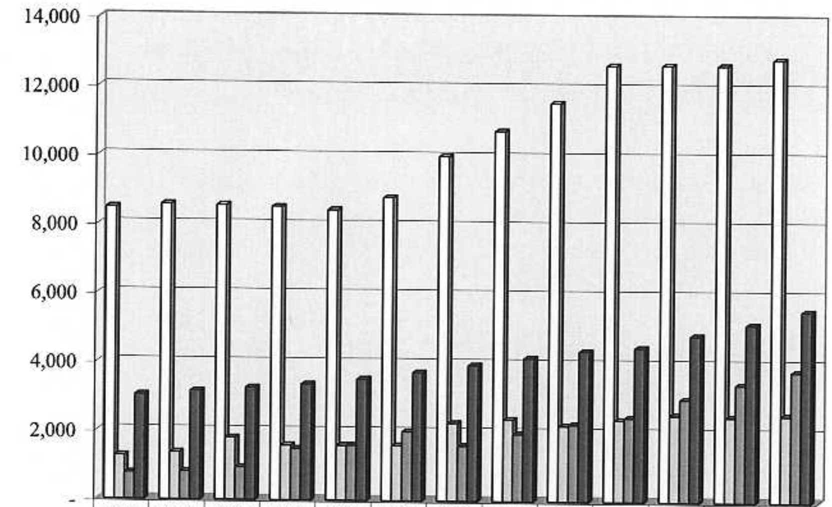
June 30, 2004		June 30, 2005
$ 1,301,200,000	**Unfunded PVB**	$ 1,035,900,000
(397,500,000)	**(Unfunded Liability)**	(107,000,000)
2,231,600,000	**Actuarial Liability**	2,471,500,000
3,135,400,000	**PVB**	3,400,500,000

Plan Funded Status
Miscellaneous

- What happened between 6/30/04 and 6/30/05?
  - Asset gain/(loss): ≈ 4.6 million
  - Actuarial gain/(loss): ≈ (34.3) million
    - ☐ Average Salary $45,142 → $46,122
    - ☐ Number of Actives 12,664 → 12,847
    - ☐ Number of Inactives 5,867 → 6,295
    - ☐ Number of Retirees 5,146 → 5,544
  - Contribution gain/(loss): ≈ 318.1 *million
    - ☐ Expected ≈ (131.4)
    - ☐ Actual ≈ 449.2
  - Expected UAL Decrease/(Increase): ≈ 2.1 million

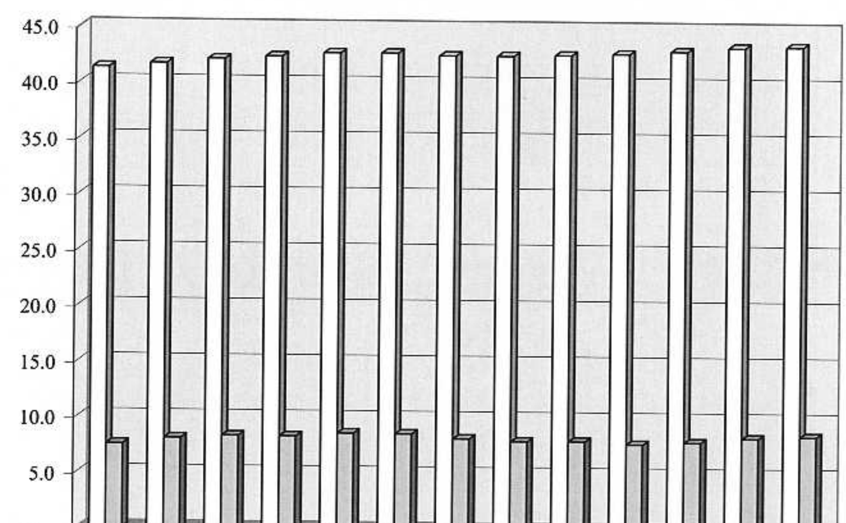
*Includes POB proceeds $311.1 million

Members Included in Valuation
Miscellaneous



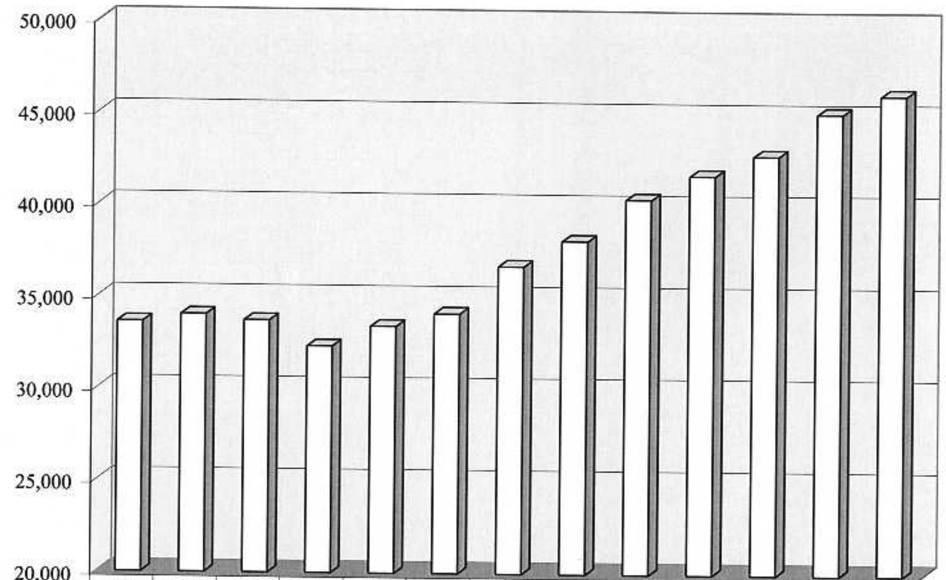
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Active	8,481	8,585	8,555	8,515	8,432	8,783	9,998	10,739	11,562	12,656	12,671	12,664	12,847
Transfers	1,274	1,369	1,808	1,591	1,591	1,603	2,256	2,373	2,189	2,373	2,513	2,463	2,515
Vested Terminations	774	819	948	1,493	1,603	2,008	1,603	1,951	2,232	2,434	2,976	3,404	3,780
Receiving Payments	3,040	3,155	3,259	3,365	3,518	3,716	3,935	4,147	4,356	4,467	4,815	5,146	5,544

Average Age/Service
Miscellaneous



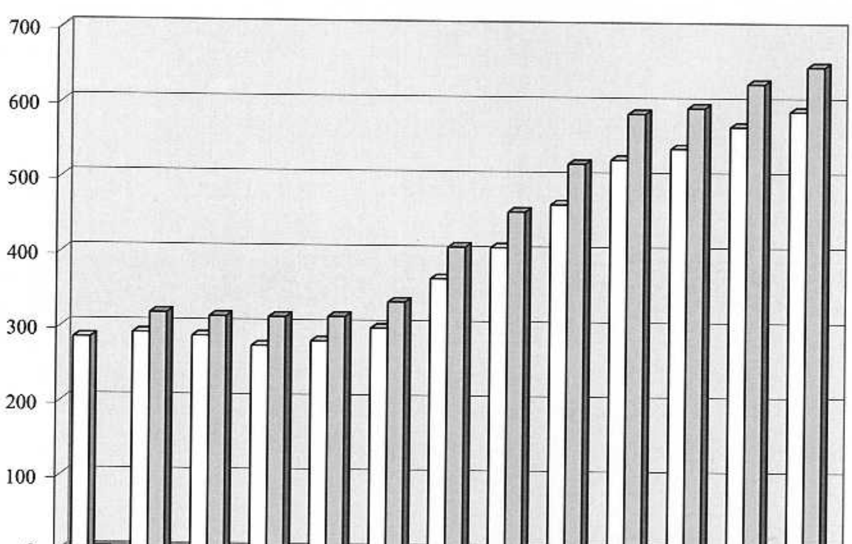
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Average Age	41.3	41.7	42.2	42.4	42.7	42.8	42.6	42.5	42.6	42.8	43.0	43.4	43.5
Average Service	7.6	8.1	8.4	8.4	8.7	8.6	8.2	8.0	8.0	7.8	8.0	8.4	8.6

Average PERSable Wages
Miscellaneous



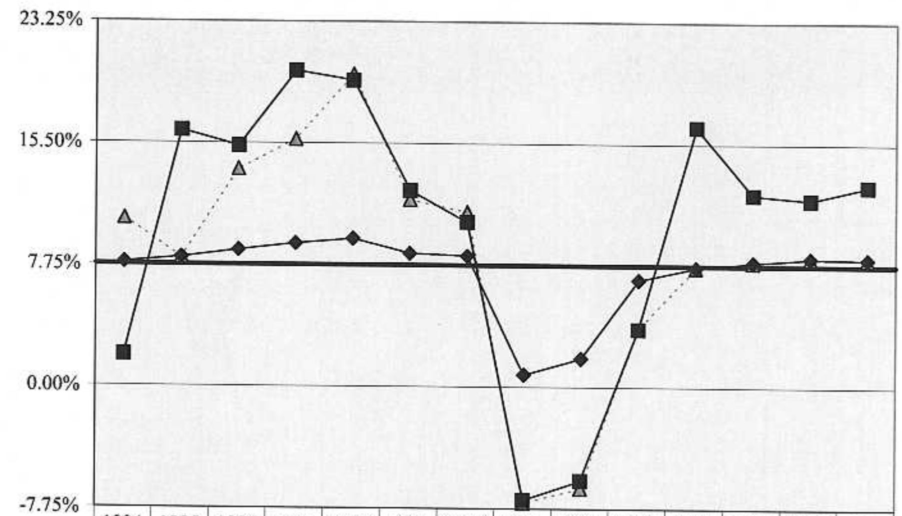
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
□ Average	33,600	34,000	33,700	32,300	33,400	34,100	36,700	38,100	40,400	41,700	42,800	45,100	46,100

Total Annual PERSable Wages (Millions)
Miscellaneous



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
□ Current	285.4	291.9	288.0	275.3	282.0	299.7	366.5	408.9	466.9	527.2	542.1	571.7	592.5
□ Projected	-	318.8	314.5	314.1	314.9	334.7	409.3	456.6	521.4	588.7	596.6	629.2	652.2

Actuarial Investment Return
Miscellaneous

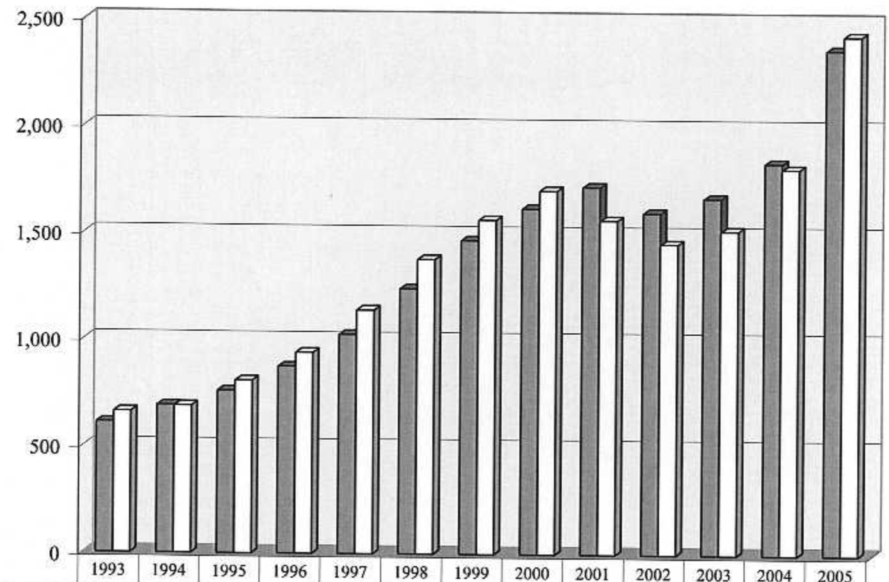


	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
AVA Rate	10.7%	8.2%	13.8%	15.7%	19.9%	11.9%	11.1%	-7.4%	-6.5%	3.7%	7.6%	8.0%	8.2%	8.2%
MVA Rate	2.0%	16.3%	15.3%	20.1%	19.5%	12.5%	10.5%	-7.2%	-6.0%	3.7%	16.6%	12.3%	12.0%	12.8%
AVA New	7.9%	8.2%	8.7%	9.1%	9.4%	8.5%	8.3%	0.8%	1.8%	6.8%	7.6%	8.0%	8.2%	8.2%

Actuarial Investment Return
Miscellaneous

- Above assumes contributions, payments, etc. received evenly throughout year.
- 6/30/05:
  - Market Value return ≈ 12.26%
  - Actuarial Value return ≈ 7.9%
- 6/30/06:
  - Market Value return ≈ 11.94%
  - Actuarial Value return ≈ 8.2%
- 6/30/07:
  - Market Value return through 10/31/06 ≈ 7.33%
  - Estimated Annualized MVA Return ≈ 12.8%
  - Estimated Annualized AVA Return ≈ 8.2%

Asset Values (Millions)
Miscellaneous

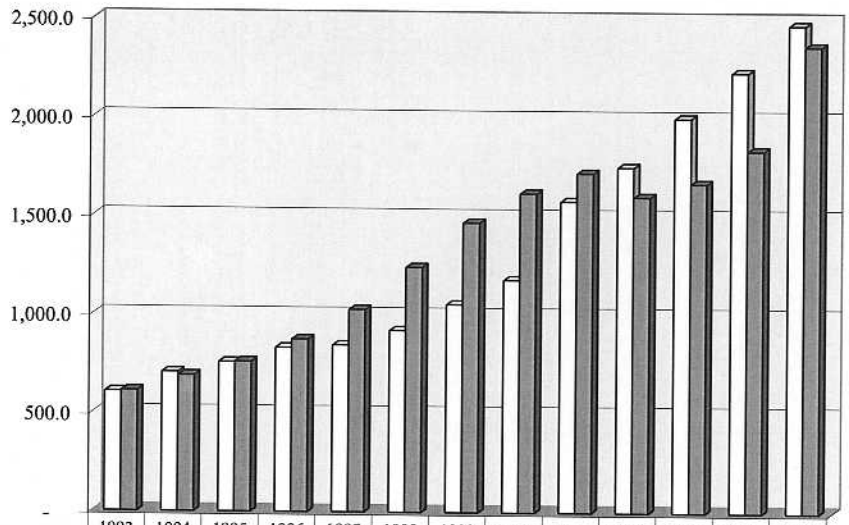


	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Actuarial	610.6	689.9	759.6	874.2	1,025.8	1,241.1	1,468.7	1,617.8	1,720.5	1,599.9	1,668.4	1,834.2	2,364.6
Market	660.8	687.8	808.0	939.5	1,139.8	1,379.0	1,564.4	1,702.3	1,564.1	1,454.5	1,516.7	1,806.7	2,429.4

Asset Values
Miscellaneous

- 6/30/01 Actuarial Value ≈ 110% Market
- 6/30/02 Actuarial Value ≈ 110% Market
- 6/30/03 Actuarial Value ≈ 110% Market
- 6/30/04 Actuarial Value ≈ 101% Market
- 6/30/05 Actuarial Value ≈ 98% Market
- 6/30/06 Actuarial Value will be ≈ 104% Market

Funded Status (Millions)
Miscellaneous



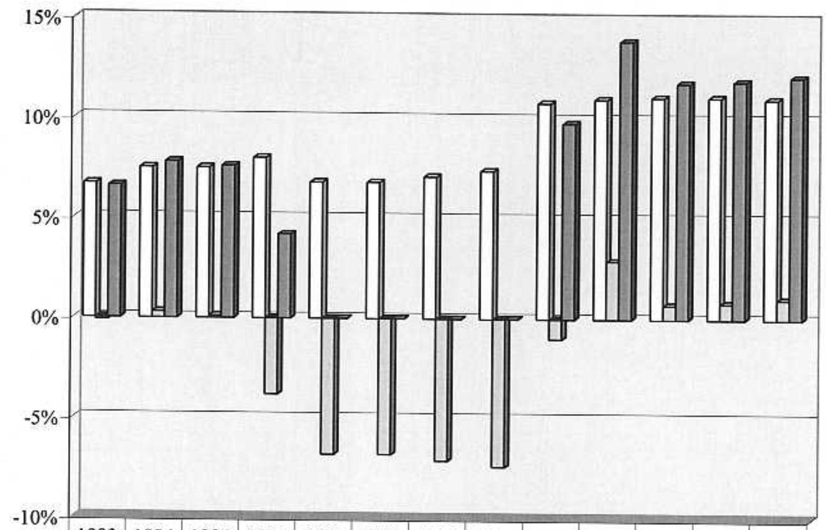
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
□ Actuarial Liability	605.9	704.4	756.5	830.8	844.1	920.3	1,052.	1,177.	1,577.	1,750.	1,998.	2,231.	2,471.
■ Actuatial Asset Value	610.6	689.9	759.6	874.2	1,025.	1,241.	1,468.	1,617.	1,720.	1,599.	1,668.	1,834.	2,364.

Funded Status
Miscellaneous

- Actuarial assumptions:
  - Interest rate
    - General inflation 3.00%
    - Real rate of return 4.75
    - Total 7.75
  - Payroll growth 3.25%
- Investment gains – Impact on funded status:
  - 6/30/06 [11.94% compared to 7.75%] +4.2%
  - Actuarial asset "reserve" 2.7%
  - Total estimated % gain 6.9%
  - Total estimated unrecognized gain [6.9% x $ 2,429] $ 166.7 million

	6/30/04	6/30/05	Projected 6/30/07	Projected 6/30/37
UAL (millions)	$397.5	$107.0	$109.6	$172.1

Contribution Rates
Miscellaneous



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Normal Cost	6.7%	7.5%	7.5%	8.0%	6.8%	6.8%	7.1%	7.4%	10.8%	11.0%	11.1%	11.1%	11.0%
UAL Amort	-0.1%	0.3%	0.1%	-3.8%	-6.8%	-6.8%	-7.1%	-7.4%	-1.0%	2.9%	0.7%	0.8%	1.0%
Total	6.6%	7.8%	7.6%	4.2%	0.0%	0.0%	0.0%	0.0%	9.8%	13.9%	11.8%	11.9%	12.1%

Contribution Rates
Miscellaneous

	6/30/04 2006/2007	6/30/05 2007/2008
■ Normal cost	**11.1%**	**11.0%**
■ Amortization bases:		
● (Gain)/Loss	0.9%	1.1%
● Fresh Start	-0.1%	-0.1%
Sub-total	0.8%	1.0%
● **Total:**	**11.9%**	**12.1%**
● Amortization period	30 years	30 years

- What Happened from 6/30/04 to 6/30/05:
  - 2006/07 Rate 11.9%
  - (Gains)/Losses 0.2
  - 2007/08 Rate 12.1%

Contribution Projection
Miscellaneous

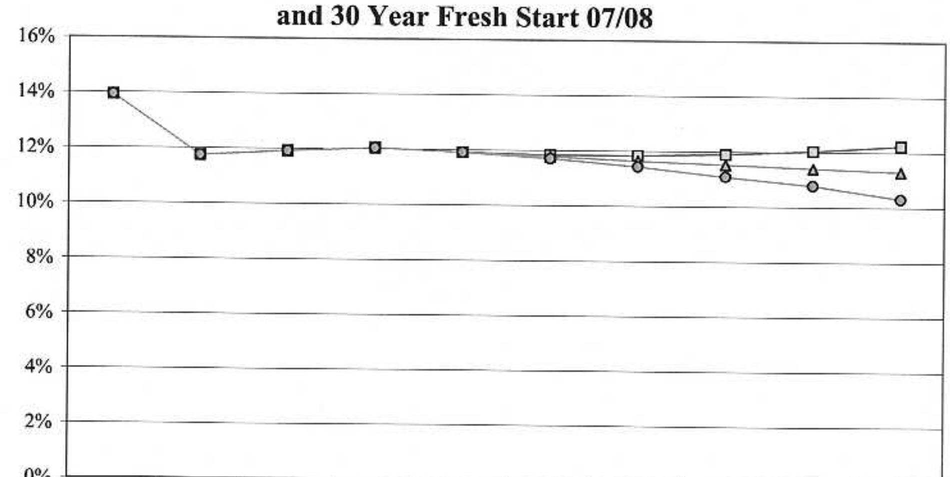
- Market Value Investment Return:
  - June 30, 2006 — 11.94%
  - June 30, 2007 - 2011
    - 75% Confidence Limit*: ≈ **4.3%**
    - 50% Confidence Limit: ≈ **7.75%**
    - 25% Confidence Limit: ≈ **11.6%**

*Confidence Limits – Actual Return will exceed the given rate with indicated probabilities

- Fresh Starts:
  - **30 Year Fresh Start for 07/08**
  - 15 Year +0.5% 20 Year +0.3% 25 Year +0.1%
- No Other:
  - Gains or Losses
  - Method or Assumption Changes
  - Benefit Improvements

Contribution Projection
Miscellaneous

Investment Return Varies
and 30 Year Fresh Start 07/08



	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14
75th	13.9%	11.8%	11.9%	12.1%	11.9%	11.8%	11.8%	11.9%	12.0%	12.2%
50th	13.9%	11.8%	11.9%	12.1%	11.9%	11.8%	11.6%	11.5%	11.4%	11.3%
25th	13.9%	11.8%	11.9%	12.1%	11.9%	11.7%	11.4%	11.1%	10.8%	10.3%

Contribution Projection
Miscellaneous

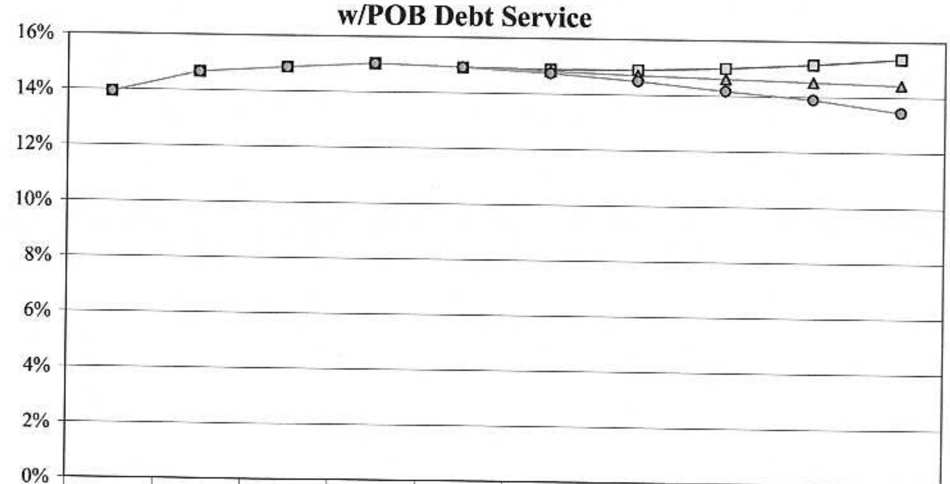
- Market Value Investment Return:
  - June 30, 2006 — 11.94%
  - June 30, 2007 - 2011
    - 75% Confidence Limit*: ≈ **4.3%**
    - 50% Confidence Limit: ≈ **7.75%**
    - 25% Confidence Limit: ≈ **11.6%**

*Confidence Limits – Actual Return will exceed the given rate with indicated probabilities

- Fresh Starts:
  - **With POB Debt Service**
- No Other:
  - Gains or Losses
  - Method or Assumption Changes
  - Benefit Improvements

Contribution Projection
Miscellaneous

Investment Return Varies
w/POB Debt Service



	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14
75th	13.9%	14.7%	14.9%	15.0%	14.9%	14.9%	14.9%	15.0%	15.1%	15.4%
50th	13.9%	14.7%	14.9%	15.0%	14.9%	14.8%	14.7%	14.6%	14.5%	14.4%
25th	13.9%	14.7%	14.9%	15.0%	14.9%	14.7%	14.5%	14.2%	13.9%	13.4%

POB (Millions)
CalPERS Proceeds Estimated Balance

	Safety	Miscellaneous	Total
POB @ 2/16/05	$85.7	$311.2	$396.9
Earnings to 6/30/05[1]	3.8	13.8	17.6
Amort. Payment through 6/30/05[2]	0.0	0.0	0.0
Balance @ 6/30/05	89.5	325.	414.5
Earnings to 2/15/06[1]	6.5	23.7	30.3
Amort. Payment through 2/15/06[2]	(3.4)	(12.2)	(15.6)
Balance @ 2/15/06	92.7	336.5	429.2
Earning 2/16 - 6/30/06[1]	4.0	14.5	18.5
Amortization payment through 6/30/06[2]	(2.)	(7.3)	(9.3)
Balance @ 6/30/06	94.7	343.7	438.4
Earning 7/1/06 - 2/15/07[3]	9.2	33.3	42.5
Amortization payment through 2/15/07	(3.6)	(12.9)	(16.5)
Balance @ 2/15/07	100.3	364.1	464.4

1 Estimated based on CalPERS market value returns: 12.2% for 04/05 and 11.9% for 05/06.
2 Based on a fixed 30-year amortization except CalPERS 6/30/04 reports show no reduction in 04/05 contribution
3 Estimated based on CalPERS 10/31/06 7.33% Market Value return from 6/30/06 through 10/31/06 and assumed 7.75% from 11/1/06 through 2/15/07.

POB (Millions)
Bond Proceeds Balance

	Payments			
	Principal	Interest	Total	Balance
2/17/05	n/a	n/a	n/a	$400.0
8/15/05	n/a	9.4	9.4	400.0
2/15/06	3.2	9.5	12.7	396.8
8/15/06	n/a	9.5	9.5	396.8
2/15/07	4.0	9.5	13.4	392.9

POB (Millions)
Bond Proceeds Balance

- Net Estimated Savings:

A.	CalPERS Estimated Balance	$ 464.4
B.	Bond Proceeds Balance	392.9
C.	Cash Flow Savings/(Deficit) [Payments that would been paid to CalPERS less POB debt service]	(3.7)
D.	Net [(A) – (B) + (C)]	67.8

- Net Estimated Savings:

E.	CalPERS Investment Earnings	$108.9
F.	POB Interest Payments	37.9
G.	Cost of Issuance	3.1
H.	Net [(E) – (F) – (G)]	67.8

- Above estimates based on market rate of return. Savings based on actuarial rate of return would be lower.

POB (Millions)
Bond Proceeds Balance

This page intentionally blank.

CalPERS Rate Smoothing
Safety

6/30/2003:	Old Method	New Method
Market Value	100.0	100.0
Actuarial Value	110.0	110.0
6/30/2004:	**12.26%**	**12.26%**
Market Value	112.3	112.3
Actuarial Value:		
1. Project @ 7.75%	118.5	118.5
2. Adjust: [(MV-AV) x (Old: 1/3; New: 1/15)]	116.4	118.1
3. Limited by corridor	116.4	118.1
Actuarial Rate of Return	5.9%	7.4%
Ratio of Actuarial Value to Market Value	103.7%	105.2%

CalPERS Rate Smoothing
Safety

Actuarial Asset Values	Old Method	New Method
• Project Assets forward	7.75%	7.75%
• Asset Gain/Losses Recognized	3 Years	15 Years
• Ratio of Actuarial to Market Value of Assets	90-110%	80-120%
Actuarial Asset Methods		
• Amortization		
○ Years	12.7 Years	30 Years
○ Factor	10%	6%
• Minimum	None	Normal Cost less 30 Year Amortization of Surplus

APPENDIX 2
Los Angeles Times Article
"Spiraling pension payouts pose threat"

Los Angeles Times latimes.com

http://www.latimes.com/news/local/la-me-benefits8feb08,1,4124252.story

Spiraling pension payouts pose threat

Costs for retired public employees could reach 'critical mass' and cut into government services, according to

By Catherine Saillant
Times Staff Writer

February 8, 2007

Retirement costs for public workers in some of California's largest cities and dozens of others across the country are far outpacing inflation and will reach "critical mass" in a few years unless changes are made, Wall Street analysts are warning.

In two reports made public Wednesday, Moody's Investors Service outlines retiree costs in 55 cities, including eight in California: Anaheim, Fresno, Long Beach, Los Angeles, Oakland, San Diego, San Francisco and San Jose.

Though pension expenses have risen significantly in recent years, the cost of providing healthcare benefits to retirees is going up even faster, the reports conclude. On average, they have risen 15% a year while inflation has hovered around 3%, the reports said.

The rising costs "could reach a critical mass" where they are eating into general funds used to run libraries, pave roads and provide education, said Moody's, a credit rating agency.

Former state Assemblyman Keith Richman, a longtime pension reform advocate, said the reports back up what he has been saying for years.

"What Wall Street is doing is sounding the alarm again," he said. "When they talk about these costs reaching a critical level where pensions are competing with current operations for funding, we ought to pay attention."

Moody's prepared the reports in response to market concerns about the effect of the growing pension debt, said Moody's spokesman Richard Helgason.

In San Diego, pension officials face charges of conflict of interest, conspiracy and fraud for allowing the city to under-fund its pension system, which now has a deficit of at least $1 billion.

Fearful of another such debacle, investors want full disclosure of current and future funding obligations when deciding whether to invest in municipal bonds.

Later this year, governments will be required for the first time to report current and future healthcare costs, in addition to pension debt, in annual financial statements.

The new reporting standards are expected to provide a clearer picture of what has been promised to workers and how public entities intend to pay for them, said Douglas Benton, a Moody's vice president based in Houston.

"There was not a lot of consistency in disclosure," Benton said. "This makes a level playing field to discuss expenses and liabilities."

The report on healthcare benefits for retirees shows that they rose an average of 15% a year over five years ending in 2005. Oakland had the largest annual average increase — 45% — of the 55 cities surveyed nationwide, the report said. Oakland's annual payout for retiree healthcare rose to \$2.6 million in 2005 from \$600,000 in 1997, Moody's reported.

As for pensions, Moody's found that the funding ratio of pension trusts has steadily dropped since 1999. In a well-managed trust, the funding ratio should hover close to 100%, meaning there is enough money to cover all of its pension obligations.

In 1999, the median funding ratio of the 55 cities surveyed was 103%, an actuarial surplus that has since disappeared. By 2004, the funding ratio was 84%.

Dwight Burns, a Moody's analyst, said state and local governments could prevent fiscal crises by taking steps to fully fund trusts.

Moody's did not make recommendations, but pension reform advocates have suggested potential fixes such as reducing benefits for new hires and increasing employee contributions.

A bipartisan panel created by Gov. Arnold Schwarzenegger is expected to meet this year to come up with recommendations.

catherine.saillant@latimes.com