TCS Total Compensation Systems, Inc.

November 21, 2013

Lee Lindsey
Vice President, Administrative Services
College of the Redwoods
7351 Tompkins Hill Rd.
Eureka, CA 95501

Dear Lee,

This is in response to your request for an opinion on the viability of the College's tentative funding plan shown in the spreadsheet I was provided. Following is a summary of that plan:

- The College has a FY2014 beginning fund balance of $2.7 million.
- The College will contribute the normal cost to the fund each year.
- The College will also contribute to the fund an amount that starts at $150,000 in FY 2014, increasing by $50,000 per year to $300,000 per year in FY2017 and beyond.
- Interest earnings on the fund will be retained in the fund.
- Amounts necessary to pay for retiree premiums will be withdrawn from the fund each year.
- No other deposits to or withdrawals from the fund will be made.

As requested, I updated the spreadsheet to reflect projected retiree premiums and normal costs from the valuation as of September 1, 2013. I also modified the assumption regarding interest on the fund. The spreadsheet conservatively assumes that recent interest rates will continue through FY2030. However, since the Great Recession interest rates have been maintained by the Fed at a level that is much lower than historical levels. Although the Fed has indicated that it will let interest rates float up when the unemployment rate reaches 6.5%, this may take some time. We assumed that the interest rate credited on the fund will gradually float up by 20 basis points per year beginning in FY2015 through the end of the projection period (FY2030). We expect (and hope) that this is still a conservative assumption.

Given the above, our revised analysis shows that the fund would decrease gradually to about $1.7 million in FY2023 when it will gradually increase. In the meantime, the actuarial accrued liability (AAL) can be expected to gradually decrease over that time. Because the participant base is a closed group, continuing this funding strategy beyond FY2030 would be likely to fully fund the District obligation in less than ten more years beyond FY2030.

This letter is not intended to endorse any particular funding strategy or funding vehicle. The letter is intended only to provide the opinion that the funding approach described above appears to be viable to fully fund the District's obligation within a time period that is reasonably consistent with the transition period included in GASB45 (i.e. by FY2039).

I would be happy to discuss the above at your convenience.

Sincerely,

Geoffrey L. Kischuk, FSA, FCA, MAAA
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