

CITY OF DULUTH

June 1, 2007 Actuarial Valuation  
of the Retiree Medical Plan

January, 2008

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## June 1, 2007 Actuarial Valuation of the Retiree Medical Plan

Preparation of this Actuarial ValuationActuarial Certification

The City of Duluth (the City) hired Van Iwaarden Associates to perform an actuarial valuation of the City's "other post-employment benefits". These benefits include retiree health, dental, and life insurance.

This material has been prepared primarily to present to the City information on the postretirement benefit obligations of the plans for financial reporting purposes. It is important to recognize that calculations performed for other purposes, such as termination of the plans, may yield significantly different results.

In conducting the valuation, we have used:

- the provisions of the substantive plans in effect as of June 1, 2007,
- the personnel data as of June 1, 2007, and
- the claims information through June 1, 2007.

All claims and census data were provided by City personnel.

The claims information and census data was used with a review of reasonableness but without formal audit. The health care claims cost analysis was performed in conjunction with Health Risk Strategies, LLC.

In our opinion, the valuation has been conducted in accordance with generally accepted actuarial principles and practices and complies with Government Accounting Standards Nos. 43 and 45 (GASB 43 and GASB 45). In our opinion, the actuarial assumptions and methods represent reasonable expectations of anticipated plan experience. The actuarial assumptions are based on management's best estimate with regard to individual assumptions.

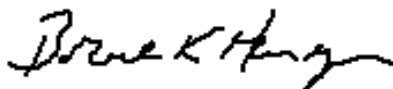
GASB's Technical Bulletin issued June 30, 2006, Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D, indicates that the GASB 43/45 actuarial accrued liability should be calculated as the full cost of the plan, ignoring any expected Federal subsidy. Subsidy payments made to the City should be reported as revenue.

We are available to answer questions on the material contained in the report or to provide explanations or further detail, as may be appropriate.



Emily Knutson  
Actuarial Analyst

I, Brenda Hardy, am a consulting actuary for Van Iwaarden Associates. I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.



Brenda K. Hardy, ASA, MAAA  
Consulting Actuary

January 29, 2008

## June 1, 2007 Actuarial Valuation of the Retiree Medical Plan

Summary of resultsA. Valuation Census Data (see page 3)June 1, 2007

1. Active employees	806
2. Covered retirees and beneficiaries	<u>809</u>
3. Total	1,615

B. GASB 43 and GASB 45 ResultsJune 1, 2007

1. Benefit obligations (see page 4)	\$332,856,284
a. Present value of OPEB benefits	267,381,748
b. Actuarial Accrued Liability (AAL)	5,582,442
c. Normal cost (beginning of year)	9,355,656
d. Expected claims during year (see page 8)	23,742,663
2. Annual Required Contribution (see page 8)	23,742,663
3. Annual OPEB Cost (see page 8)	23,742,663

C. Key economic assumptions (see page 13)

1. Discount rate for liabilities	5.70%
2. Health care cost trend rate	10.0% to 5.0% in 10 years

## June 1, 2007 Actuarial Valuation of the Retiree Medical Plan

Valuation Census Data

This section presents the demographic information for the active and retired participants included in the postretirement medical benefit valuation. The actuarial valuation was based on May 31, 2007 census data provided by City. The following chart summarizes the personnel characteristics of the data used for the study. The same census data was used for the severance plan with ineligible participants contributing a liability of zero.

	Family Coverage	Single Coverage	<u>Total</u>
<u>A. Retired Participants and Widow(er)s</u>			
1. Number under age 65	259	112	371
2. Number over age 65	<u>232</u>	<u>206</u>	<u>438</u>
3. Total (1. + 2.)	491	318	809
4. Average Age			68.56
			<u>Total</u>
<u>B. Active Participants</u>			
1. Retiree medical			
a. Number eligible to receive benefits			153
b. Number not eligible to receive benefits*			<u>653</u>
c. Total			806
d. Average Age			46.59
<u>C. Total Participants for Retiree Medical</u>			1,615

\*Participants who have not yet reached retirement age and service requirements.

## June 1, 2007 Actuarial Valuation of the Retiree Medical Plan

Statement of Plan's Benefit Obligations

<u>A. Post-Retirement Medical</u>	<u>June 1, 2007</u>
1. Total actuarial present value of medical benefits	\$332,856,284
2. Present value of future employee contributions	<u>13,475,032</u>
3. Total City-funded actuarial present value (1. - 2.)	319,381,252
4. Postretirement benefit obligation attributable to future service	<u>51,999,504</u>
5. Total Actuarial Accrued Liability (AAL) (3. - 4.)	267,381,748
6. Breakdown of AAL	
a. Retirees	176,501,674
b. Actives	<u>90,880,074</u>
c. Total	267,381,748

B. Development of the actuarial accrued liability

1. AAL at 1/1/2005	\$279,934,736
2. Changes due to additional accruals, normal operations of the plan, and demographic changes	26,735,161
3. Change due to Medicare Part D (no longer allowed to value lower claims)	31,271,230
4. Change due to addition of dental and life insurance liabilities	22,012,208
5. Change due to trend rate and participation rate adjustments	(5,252,420)
6. Change due to discount rate increase from 4.5% to 5.7%	(62,349,605)
7. Change due to prescription drug copay changes and for all unions and other contract changes	<u>(24,969,562)</u>
8. AAL at 6/1/2007	267,381,748

C. Allocation of accounting results by division and fund

	Participants	Actuarial Accrued Liability			ARC		
		General Fund	Enterprise Funds	Total	General Fund	Enterprise Funds	ARC
Police	132	13,851,116	0	13,851,116	2,146,703	0	2,150,686
Fire	124	15,222,756	0	15,222,756	2,089,644	0	2,094,022
Others	550	36,007,997	25,798,205	61,806,202	4,409,341	3,318,867	7,720,237
Retirees	<u>809</u>	<u>146,390,770</u>	<u>30,110,904</u>	<u>176,501,674</u>	<u>9,726,362</u>	<u>2,030,648</u>	<u>11,777,717</u>
Total	1,615	\$211,472,639	\$55,909,109	\$267,381,748	\$18,372,049	\$5,349,515	\$23,742,663

## June 1, 2007 Actuarial Valuation of the Retiree Medical Plan

Reconciliation of Plan Assets

	<u>Market Value</u>
<u>A. Value of assets on June 1, 2006</u>	
1. Asset value excluding contributions receivable	0
2. Contributions receivable on June 1, 2006	<u>0</u>
3. Asset value including contributions receivable	0
 <u>B. Contributions for the year ending May 31, 2007</u>	
1. Paid during the year	3,000,000
2. Receivable at the end of the year	<u>10,700,000</u>
3. Total for the year	13,700,000
 <u>C. Benefits paid during the year</u>	0
 <u>D. Expenses (non-investment) paid from plan assets</u>	0
 <u>E. Investment earnings for the year</u>	
1. Interest and dividends	
a. Interest	0
b. Dividends	<u>0</u>
c. Total	0
2. Realized gains or (losses)	0
3. Unrealized gains or (losses)	0
4. Net gain or (loss) from common/collective trusts	0
5. Net gain or (loss) from registered investment companies	<u>0</u>
6. Gross investment earnings (1c.+2.+3.+4.+5.)	0
7. Investment expenses	0
8. Investment earnings net of expenses (6.-7.)	0
9. Transfers to or (from) the plan	0
 <u>F. Asset value on May 31, 2007 (A.+B.-C.-D.+E.)</u>	
1. Asset value excluding contributions receivable	3,000,000
2. Contributions receivable on May 31, 2007	<u>10,700,000</u>
3. Asset value including contributions receivable	<u>13,700,000</u>
 <u>G. Investment return (IRS method)</u>	
1. IRS method - assumes all cash flow at mid-year	0.00%
2. Based on actual cash flow	0.00%

## June 1, 2007 Actuarial Valuation of the Retiree Medical Plan

Accounting Requirements

This section presents the actuarial calculations used to fulfill the applicable accounting requirements for the plan.

Accounting Information under GASB 43 and GASB 45

The Governmental Accounting Standards Board (GASB) finalized Statements No. 43 (GAS 43) and 45 (GAS 45) in April 2004 and June 2004 respectively. The statements' objectives are to establish uniform standards of financial reporting by local and state governmental entities for postemployment benefit plans other than pension benefits (OPEB plans). This includes benefits such as postemployment healthcare benefits and life insurance.

For OPEB plans sponsored by governmental entities, these GASB Statements require certain standards and disclosures of plan and fund information including financial reporting of plan assets, liabilities of plan, changes in net assets, funded status and funding progress of the plan, and contributions to the plan in comparison to the annual required contributions of the employer (ARC). The City is required to implement GASB 43 and GASB 45 in the 2007 fiscal year.

Valuing Postretirement Health Benefits

In reviewing these valuation results, it should be noted that determining the value of future health care benefits is challenged by the fact that assumptions must be made about many future events that are especially hard to predict. In general, future increases in health care costs for many plans are affected by many factors, including:

- Medical inflation
- Changes in utilization patterns
- Technological advances
- Cost shifting (i.e., increases in private plans' costs in non-managed programs due to uninsured claims, changes in the Medicare payment structure, and increased emphasis on managed care programs)
- Cost leveraging (i.e., erosion of fixed deductibles and out-of-pocket maximums)
- Changes to government medical programs, such as Medicare, when applicable.

## June 1, 2007 Actuarial Valuation of the Retiree Medical Plan

Accounting Requirements (continued)

OPEB obligations are also heavily influenced by demographic assumptions such as:

- Withdrawal rates (i.e., employees terminating before receiving benefits)
- Retirement rates (i.e., employees retiring at various ages and subsidy levels)
- Participation (i.e., retirees electing coverage, the percentage married, and elections to contribute for coverage of spouses)
- Mortality rates (i.e., how long employees and spouses will receive benefits)

The Actuarial Assumptions section outlines the assumptions used in this valuation.

Estimating Health Care Costs

In addition to estimating future increases in health care claims costs, it is necessary to develop a starting claims cost value on a per covered individual basis for self-insured plans and even some insured plans.

Premiums represent a blended average cost of both active and retired individuals. Since older, pre-65 retirees generally incur higher claims than younger active employees, GASB requires employers to value their retiree liability based on estimated retiree costs rather than premiums. The difference between the age-specific expected claims cost and the blended premium is known as the "implicit subsidy." Age-specific claims are developed based on actual claims and used to value the future expected retiree medical liability.

## June 1, 2007 Actuarial Valuation of the Retiree Medical Plan

Schedule of Funding Progress and ARC

The following tables show the balance sheet and income statement figures if City were to follow GASB 43 accounting for 2007. The unfunded accrued liability was amortized as a level dollar amount over 30 years. Assumptions and methods used are described in subsequent sections.

Retiree MedicalA. Schedule of funding progress

	<u>01/01/2005</u>	<u>06/01/2007</u>
1. Actuarial valuation date		
2. Plan assets at fair value	\$0	\$13,700,000
3. Actuarial accrued liability (AAL)	279,934,736	267,381,748
4. Unfunded AAL (UAAL) (3. - 2.)	279,934,736	253,681,748
5. Funded ratio (2. / 3.)	0.00%	5.12%

B. Annual Required Contribution (ARC)

1. Normal cost	5,582,442
2. Amortization of Transition Obligation	16,879,869
3. Amortization of Net OPEB Obligation	0
4. Interest to the end of the year	<u>1,280,352</u>
5. Total ARC	\$23,742,663

C. Annual OPEB Cost and Net OPEB Obligation

1. Annual required contribution	\$23,742,663
2. Interest on net OPEB obligation	0
3. Adjustment to ARC	<u>0</u>
4. Annual OPEB cost (expense) (1. + 2. + 3.)	23,742,663
5. Contributions made	
a. Payments for retirees (direct subsidy)	To be determined
b. Adjustment for active employees (implicit subsidy)	To be determined
c. Other contributions	To be determined
d. Total contributions	<u>To be determined</u>
6. Increase in net OPEB obligation (4. - 5.d.)	To be determined
7. Net OPEB obligation as of beginning of year	<u>0</u>
8. Net OPEB obligation as of end of year (6. + 7.)	To be determined

## Notes

Expected retiree claims paid over the 2008 fiscal year net of retiree contributions	\$9,355,656
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## June 1, 2007 Actuarial Valuation of the Retiree Medical Plan

Projections of Liabilities and ARCA. Projections of Liabilities

<u>Date</u>	<u>AAL</u>	<u>Normal Cost</u>	<u>Benefit Payouts</u>
06/01/2007	\$267,381,748	\$5,582,442	\$9,355,656
06/01/2008	278,034,377	5,508,147	10,286,379
06/01/2009	288,078,879	5,392,539	11,336,876
06/01/2010	297,339,521	5,394,992	12,214,088
06/01/2011	306,149,850	5,414,155	13,238,143
06/01/2012	314,447,427	5,413,496	14,130,009
06/01/2013	322,225,306	5,418,779	15,003,304
06/01/2014	329,546,086	5,451,593	15,744,086
06/01/2015	336,751,651	5,465,845	16,386,381
06/01/2016	343,962,207	5,454,393	17,228,872

B. Projections of Trust Fund and ARC

Assume Contributions = Initial \$13,700,000 Contribution and Benefit Payouts Thereafter

	<u>ARC</u>	<u>Contribution</u>	<u>Annual OPEB Cost</u>	<u>End of Year Net OPEB Obligation</u>	<u>Fund Balance</u>	<u>Funding Progress</u>	<u>Unfunded AAL</u>
06/01/2007	\$23,742,663	\$9,355,656	\$23,742,663	\$14,387,007	\$13,700,000	5.12%	\$253,681,748
06/01/2008	24,358,435	10,286,379	24,166,623	28,267,251	14,480,900	5.21%	263,553,477
06/01/2009	24,884,637	11,336,876	24,507,769	41,438,144	15,306,311	5.31%	272,772,568
06/01/2010	25,477,190	12,214,088	24,924,724	54,148,780	16,178,771	5.44%	281,160,750
06/01/2011	26,052,236	13,238,143	25,330,308	66,240,945	17,100,961	5.59%	289,048,889
06/01/2012	26,566,571	14,130,009	25,683,427	77,794,363	18,075,716	5.75%	296,371,711
06/01/2013	27,046,727	15,003,304	26,009,549	88,800,608	19,106,032	5.93%	303,119,274
06/01/2014	27,519,703	15,744,086	26,335,786	99,392,308	20,195,075	6.13%	309,351,011
06/01/2015	27,960,591	16,386,381	26,635,462	109,641,390	21,346,195	6.34%	315,405,456
06/01/2016	28,370,045	17,228,872	26,908,273	119,320,790	22,562,928	6.56%	321,399,279

C. Projections of Trust Fund and ARC

Assume Contributions = Initial \$13,700,000 Contribution and

Expected Benefit Payouts Plus \$4,600,000 in the Following Years

	<u>ARC</u>	<u>Contribution</u>	<u>Annual OPEB Cost</u>	<u>End of Year Net OPEB Obligation</u>	<u>Fund Balance</u>	<u>Funding Progress</u>	<u>Unfunded AAL</u>
06/01/2007	\$23,742,663	\$13,955,656	\$23,742,663	\$9,787,007	\$13,700,000	5.12%	\$253,681,748
06/01/2008	24,025,686	14,886,379	23,895,203	18,795,831	19,212,000	6.91%	258,822,377
06/01/2009	24,200,172	15,936,876	23,949,580	26,808,535	25,038,184	8.69%	263,040,695
06/01/2010	24,420,961	16,814,088	24,063,541	34,057,988	31,196,460	10.49%	266,143,061
06/01/2011	24,603,053	17,838,143	24,148,982	40,368,827	37,705,759	12.32%	268,444,091
06/01/2012	24,702,035	18,730,009	24,163,826	45,802,643	44,586,087	14.18%	269,861,340
06/01/2013	24,743,163	19,603,304	24,132,508	50,331,848	51,858,594	16.09%	270,366,712
06/01/2014	24,752,088	20,344,086	24,081,048	54,068,810	59,545,634	18.07%	270,000,452
06/01/2015	24,702,472	20,986,381	23,981,610	57,064,039	67,670,835	20.10%	269,080,816
06/01/2016	24,593,465	21,828,872	23,832,670	59,067,837	76,259,173	22.17%	267,703,034

Projections are closed group projections, meaning no new hires are assumed in future years.

## June 1, 2007 Actuarial Valuation of the Retiree Medical Plan

Summary of Plan Provisions

This section describes the "substantive plans" upon which the valuation was based. This summary reflects relevant provisions used as the basis for the actuarial valuation.

Post-Retirement Medical

Eligibility for Participation	Police and Fire: Age 50 with a minimum of 20 years of service. All other employees: Age 55 with 5 years of service.
Deductible	Plan 1-R: \$100 per participant, not to exceed \$300 per family Plan 1B-R: \$650 per family for all services in additions to the deductible as described in Plan 1-R (limited application). Plan 2: None Plan 3: \$250 per participant, not to exceed \$500 per family Plan 4: None
Coinsurance	Plan 1-R: 100% for Basic benefits and 80% of charges up to annual out-of-pocket, then 100% of charges for major medical benefits Plan 1B-R: 100% for Basic benefits and 80% of charges up to annual out-of-pocket, then 100% of charges for major medical benefits Plan 2: 100% Plan 3: 80% up to annual out-of-pocket limit, then 100% of charges Plan 4: 100%
Out-of-Pocket Limit	Plan 1-R: \$2,080 per participant, not to exceed \$6,240 per family Plan 1B-R: \$2,080 per participant, not to exceed \$6,240 per family (the \$650 front-end deductible is not included in the amounts) Plan 2: None Plan 3: \$1,250 per participant, not to exceed \$2,500 per family Plan 4: None
Lifetime Maximum	Plan 1-R: \$1,000,000 Plan 1B-R: \$1,000,000 Plan 2: \$1,000,000 Plan 3: \$2,000,000 Plan 4: \$1,000,000
Prescription Copays	<ul style="list-style-type: none"> <li>• Participants retiring before 6/1/2004: Plan 1-R and Plan 1B-R: \$3 Plan 2, Plan 3, and Plan 4: \$8 for generic, \$12 for name brand</li> <li>• Participants retiring after 6/1/2004 and before 10/1/2007: \$7 for generic drugs, \$12 for brand-name drugs with no generic substitute, and \$20 for brand-name drugs with a generic substitute</li> <li>• Participants retiring after 10/1/2007: \$0 for generic drugs, \$15 for brand-name drugs with no generic substitute, and 30% with a minimum of \$30 and a maximum of \$100 for brand-name drugs with a generic substitute</li> </ul>
Medicare Part B Premium Reimbursement	For employees eligible for Medicare, enrollment in Medicare A and B is primary and required.
Continuation of Coverage Upon Participant's Death	Continued until the earlier of remarriage or death.

June 1, 2007 Actuarial Valuation of the Retiree Medical Plan

Summary of Plan Provisions (continued)

Amount of Retiree Medical Benefit

Basic Employees:

- Employees hired before 12/31/2006 may continue coverage on Plan 3 only and pay a portion of their premium.\* Employees hired before 12/31/2006 with 15 years of service will have their entire premium paid by the City if they retire before 12/15/2009.
- Employees hired after 12/31/2006 may elect retiree medical coverage but must pay the full premium.

Confidential Employees:

- Employees may continue coverage on Plan 3 only and pay a portion of their premium.\*
- Employees hired after 1/1/2006 may elect retiree medical coverage but must pay the full premium.

Supervisory Association

- Employees may continue coverage on Plan 3 only and pay a portion of their premium.\*
- Employees hired after 1/1/2006 may elect retiree medical coverage but must pay the full premium.

Fire Fighters

- Employees may continue coverage on Plan 3 only and pay a portion of their premium.\*
- Employees hired after 1/1/2007 may elect retiree medical coverage but must pay the full premium.

Police

- Employees may continue coverage on Plan 3 only and pay a portion of their premium.\*
- Employees hired after 1/1/2007 may elect retiree medical coverage but must pay the full premium.

\*Schedule for participants paying a portion of their premium:

<u>Years of Service</u>	<u>Portion of premium paid by retiree</u>	<u>Years of Service</u>	<u>Portion of premium paid by retiree</u>
5	75%	13	35%
6	70%	14	30%
7	65%	15	25%
8	60%	16	20%
9	55%	17	15%
10	50%	18	10%
11	45%	19	5%
12	40%	20+	0%

Amount of Life Insurance Benefit

The City pays the entire premium for a \$25,000 life insurance policy for each eligible retiree

Amount of Retiree Dental Benefit

Retirees may continue on the City dental plan but must pay the full premium.

## June 1, 2007 Actuarial Valuation of the Retiree Medical Plan

Health Care and Dental Claims Development

This section develops the assumed 2007 initial claims costs for the retiree health care and dental plans. The development of target premiums at age 65 incorporates an approach that should maintain an accurate estimate of the current and future retiree costs by reflecting multiple years of experience for the group.

	<u>Under Age 65</u>	<u>Over Age 65</u>	<u>Dental</u>
A. Paid claims per member	\$444.13	\$152.17	\$39.64
B. Incurred adjustment	<u>1.020</u>	<u>1.020</u>	<u>1.020</u>
C. Estimated incurred claims per member	\$453.01	\$155.22	\$40.43
D. Paid prescription claims per member	<u>131.56</u>	<u>194.23</u>	<u>0.00</u>
E. Subtotal claims per member	\$584.57	\$349.45	\$40.43
F. Trend to fiscal 2007	1.080	1.100	1.050
G. Benefit adjustment to Plan 1-R	1.0834	1.0661	0.9670
H. Aging to 65	<u>1.326</u>	<u>0.726</u>	<u>1.147</u>
I. Adjusted age 65 rate	\$906.73	\$297.56	\$47.09
J. Administrative expense	\$19.00	\$19.00	\$5.23

\$3 or \$8/\$12 prescription copay

Target Premium Age 65 Per Member - Plan 1	\$926	\$317
Target Premium Age 65 Per Member - Plan 1B	755	271
Target Premium Age 65 Per Member - Plan 2	877	300
Target Premium Age 65 Per Member - Plan 3	738	252
Target Premium Age 65 Per Member - Plan 4	886	322

Tiered prescription copay of \$7/\$12/\$20

Target Premium Age 65 Per Member - Plan 1-R	\$902	\$296
Target Premium Age 65 Per Member - Plan 1B-R	736	253
Target Premium Age 65 Per Member - Plan 2-R	874	298
Target Premium Age 65 Per Member - Plan 3-R	736	250
Target Premium Age 65 Per Member - Plan 4-R	883	319

Tiered prescription copay of \$0/\$15/30% with \$30 Min or \$100 Max Copays

Target Premium Age 65 Per Member - Plan 1-R	\$892	\$288
Target Premium Age 65 Per Member - Plan 1B-R	728	246
Target Premium Age 65 Per Member - Plan 2-R	844	273
Target Premium Age 65 Per Member - Plan 3-R	711	229
Target Premium Age 65 Per Member - Plan 4-R	853	293

Estimated Cost of Retiree Drug Subsidy

Average RDS PMPM	N/A	\$53
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Dental

Low Option	\$52
High Option	\$117

## June 1, 2007 Actuarial Valuation of the Retiree Medical Plan

Actuarial Assumptions

This section describes the actuarial assumptions and methods used in this valuation of postretirement benefit costs.

Discount Rate 5.70% per year

Expected Monthly Retiree Medical Costs Sample rates:

For participants retired before 6/1/2004

<u>Age</u>	<u>Plan 1</u>	<u>Plan 1B</u>	<u>Plan 2</u>	<u>Plan 3</u>	<u>Plan 4</u>
45	\$468	\$382	\$443	\$373	\$448
50	545	445	517	435	522
55	654	533	619	521	626
60	788	643	746	628	754
65	328	281	311	261	333
70	389	332	368	309	395
75	453	387	429	360	460
80	518	443	490	412	526
85	578	494	547	459	587
90	626	535	593	498	636

For participants retiring after 6/1/2004

<u>Age</u>	<u>Plan 1</u>	<u>Plan 1B</u>	<u>Plan 2</u>	<u>Plan 3</u>	<u>Plan 4</u>
45	\$456	\$372	\$442	\$372	\$446
50	531	433	515	433	520
55	637	520	617	520	624
60	768	626	744	626	751
65	306	262	309	259	330
70	363	310	365	307	391
75	423	362	426	357	456
80	484	413	487	408	521
85	540	461	543	456	582
90	585	500	589	494	630

For participants retiring after 10/1/2007

<u>Age</u>	<u>Plan 1</u>	<u>Plan 1B</u>	<u>Plan 2</u>	<u>Plan 3</u>	<u>Plan 4</u>
45	\$451	\$368	\$427	\$359	\$431
50	525	429	497	419	502
55	630	514	596	502	602
60	759	620	718	605	726
65	298	255	283	237	303
70	353	302	335	281	359
75	412	352	390	327	419
80	470	402	446	374	479
85	525	448	498	417	534
90	569	486	539	452	579

## June 1, 2007 Actuarial Valuation of the Retiree Medical Plan

Actuarial Assumptions (continued)

Expected Monthly Retiree Dental Costs	<u>Age</u>	<u>LO</u>	<u>HI</u>
	45	\$26	\$52
	50	30	68
	55	36	81
	60	44	98
	65	53	119
	70	63	141
	75	73	163
	80	80	179
	85	85	192
	90	89	201

Administrative Expenses Included in the annual claims costs above

Future Health Plan Election All future retirees will continue medical coverage on Plan 3.

Aging Adjustment for Claims Cost

Increase Per Year:

<u>Age</u>	<u>Medical</u>	<u>Dental</u>
20 - 49	3.10%	3.10%
50 - 54	3.70%	3.70%
55 - 59	3.80%	3.80%
60 - 64	4.00%	4.00%
65 - 69	3.50%	3.50%
70 - 74	3.20%	3.20%
75 - 79	2.80%	2.00%
80 - 84	2.30%	1.50%
85 - 89	1.90%	1.00%
90 - 94	0.50%	0.50%
95+	0.50%	0.50%

Health Care Trend Rates

Trend Rates:

<u>Fiscal Year</u>	<u>Medical</u>	<u>Dental</u>
2007	10.00%	4.50%
2008	9.50%	4.50%
2009	9.00%	4.50%
2010	8.50%	4.50%
2011	8.00%	4.50%
2012	7.50%	4.50%
2013	7.00%	4.50%
2014	6.50%	4.50%
2015	6.00%	4.50%
2016	5.50%	4.50%
2017+	5.00%	4.50%

## June 1, 2007 Actuarial Valuation of the Retiree Medical Plan

Actuarial Assumptions (continued)

## Participation Rate

Retiree MedicalActives

At retirement, 100% elect coverage, 65% elect spouse coverage if the City contributes towards the premium. 25% of participants who pay their entire premium will continue to elect coverage. Males are assumed to be 3 years older than females.

Inactives

Inactives in payment status are based on the actual data provided for health care coverage. If missing spouse information, males are assumed to be 3 years older than females.

Retiree DentalActives

25% elect coverage, 65% of these participants elect spouse coverage. Males are assumed to be 3 years older than females.

Inactives

Inactives currently electing dental coverage are assumed to continue similar coverage.

## Retirement Age

Police and Fire

<u>Age</u>	<u>Rate</u>
50 - 51	20%
52	30%
53 - 54	35%
55 - 59	40%
60 - 61	75%
62 - 64	80%
65	100%

Other employees NOT eligible for rule of 90 under pension

<u>Age</u>	<u>Rate</u>
55 - 59	10%
60	25%
61 - 64	40%
65	50%
66 - 69	40%
70	60%
71	100%

Other employees eligible for rule of 90 under pension

The following rates apply for employees who have met the rule of 90:

<u>Age</u>	<u>Rate</u>
55 - 64	67%
65	50%
66 - 69	40%
70	60%
71	100%



## June 1, 2007 Actuarial Valuation of the Retiree Medical Plan

Glossary of Selected Terms

This section provides the definitions of applicable terminology in the actuarial valuation, with references to both the Governmental Accounting Standards Nos. 43 (GAS 43) and 45(GAS 45).

Actuarial Cost Method - a procedure for determining the actuarial present value of benefits and for developing an allocation of such value to time periods.

Actuarial Present Value - the value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a set of actuarial assumptions.

Actuarial Accrued Liability - the portion of the actuarial present value which is not provided for by future normal costs, determined under the actuarial cost method.

ARC - the annual required contribution of the employer.

Discount Rate - The interest rate used to adjust liabilities and obligations for the time value of money.

Measurement Date - The date as of which assets and liabilities are measured in determining the OPEB liability of the plan.

Net OPEB obligation - the OPEB liability (asset) at transition, if any and the cumulative difference since the effective date of Statement No. 45 between annual OPEB cost and the employer's contributions.

Normal Cost - The portion of the actuarial present value which is allocated to the valuation year by the actuarial cost method.

GASB Statement No. 43 - the Governmental Accounting Standards Statement Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

GASB Statement No. 45 - the Governmental Accounting Standards Statement Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions