



**OPEB Valuation  
City of Duluth, MN**

**as of June 1, 2011**

Report Prepared September 23, 2011

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# City of Duluth, MN

## OPEB Valuation

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# City of Duluth, MN

## ACTUARIAL CERTIFICATION

I, Frank T. Vedegys, am a consulting actuary associated with the firm CBIZ Benefits & Insurance Services of Ohio, Inc. I am a member of the American Academy of Actuaries and meet its qualification standards to provide statements of actuarial opinion for OPEB valuations. I have performed an actuarial valuation of the medical benefits for retirees of the City of Duluth, MN ("the City"), and this report contains the results of the valuation.

To the best of my knowledge, the information supplied in this report is complete and accurate. In my opinion, the assumptions used in the valuation comply with the Governmental Accounting Standards Series 43 and 45, "Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions". The assumptions are related reasonably to the past experience of the Plan, and they represent my best estimate of anticipated experience under the Plan, based on the information furnished to me. Nevertheless, the actual costs of the plan in the future will differ from the results of the valuation, as the emerging experience varies from the assumptions projected in the valuation.

I have relied on the City for the accuracy and completeness of the benefit plans, premium rates, and employee census used in this valuation. While I have not audited the data, I have reviewed it for reasonableness and consistency and have summarized the plan provisions and demographics in this report.

I have no relationship with the City that would objectively impair, or appear to impair, my ability to perform the work detailed in this report.

This report has been prepared for the use and benefit of the City in assessing the effect of GASB 45 on accounting for postretirement benefits other than pensions. It should not be relied upon for other purposes. It is not intended to benefit any other party. It may be shared in its entirety with all auditors.

This actuarial valuation was prepared in accordance with the applicable Financial Accounting Standards and the Actuarial Standard of Practice issued by the American Academy of Actuaries.

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Frank T. Vedegys, FSA, MAAA

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Date



**City of Duluth, MN**  
**OPEB Valuation**

**Annual Required Contributions for Year Ending December 31, 2011**

<u>Normal Cost</u>	<b>Total:</b>
	<b>\$1,841,803</b>
 <u>Amortization Component</u>	
Actuarial Accrued Liability	<b>\$219,748,555</b>
Less Assets	<b>\$27,753,929</b>
Unfunded Actuarial Accrued Liability	<b>\$191,994,626</b>
	14.2182
Amortization	<b>\$13,503,425</b>
 Annual Required Contribution (ARC)	<b>\$15,345,228</b>

**Annual OPEB Cost**

	<b>Fiscal Year Ending</b>	
	<b>12/31/2011</b>	<b>12/31/2010*</b>
1. Annual Required Contribution	\$15,345,228	\$17,615,054
2. Interest on Net OPEB Obligation	\$1,342,439	\$923,196
3. Adjustment to Annual Required Contribution	(\$1,656,436)	(\$1,139,132)
4. Annual OPEB Expense	\$15,031,231	\$17,399,118
5. Contributions Made **	(\$10,300,000)	(\$10,043,975)
i. Retiree Benefit Payments	(\$8,000,000)	(\$7,743,975)
ii. Trust Contributions	(\$2,300,000)	(\$2,300,000)
6. Change in Net OPEB Obligation	\$4,731,231	\$7,355,143
7. Net OPEB Obligation (Asset) as of BOY	\$23,551,568	\$16,196,425
<b>8. Net OPEB Obligation (Asset) at EOY</b>	<b>\$28,282,799</b>	<b>\$23,551,568</b>

\*\* Estimated; TBD at FYE

\* from CAFR 12/31/2010

**Key Assumptions:**

**Demographic Statistics:**

Discount Rate	<b>5.7%</b>
Medical Trend - Immediate	10.0%
Medical Trend - Ultimate	5.0%
Funding Method	PUC
Amortization of Liability	30 Year Open, Level Dollar

Number Actives	860
Number Retirees	919



**City of Duluth, MN**  
**OPEB Valuation**

**Historical OPEB Expense, Contributions, and Net OPEB Obligation**

<u>FYE</u>	<u>Annual OPEB Expense</u>	<u>Annual OPEB Contribution (%)</u>		<u>Net OPEB Obligation</u>
12/31/2007	\$23,742,663	\$22,081,427	93.00%	\$1,661,236
12/31/2008	\$23,720,514	\$13,171,329	55.53%	\$12,210,421
12/31/2009	\$17,474,172	\$13,488,168	77.19%	\$16,196,425
12/31/2010	\$17,399,118	\$10,043,975	57.73%	\$23,551,568
12/31/2011	\$15,031,231	\$10,300,000	68.52%	\$28,282,799

**Schedule of Funding Progress**

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Accrued Liability (b - a)	Funded Ratio (a / b)	Annual Covered Payroll (c)	Unfunded Liability as Percent of Covered Payroll (b - a) / c
6/1/2009	\$16,740,064	\$224,338,111	\$207,598,047	7.46%	\$41,970,420	494.63%
6/1/2011	\$27,753,929	\$219,748,555	\$191,994,626	12.63%	\$39,716,268	483.42%

**Reconciliation of Fair Market Value of Plan Assets**

	<u>5/31/2011</u>	<u>5/31/2010</u>
1. Fair Value of Plan Assets at Beginning of Year	22,124,763	16,740,064
2. Actual Return on Plan Assets	3,829,166	3,084,699
3. Acquisitions/Divestitures	0	0
4. SFAS 88 Event	0	0
5. Employer Contributions	1,800,000	2,300,000 *
6. Gross Benefits Paid	0	0
7. Expenses	0	0
8. Participant Contributions	0	0
9. Fair Value of Plan Assets at End of Year	<u>27,753,929</u>	<u>22,124,763</u>

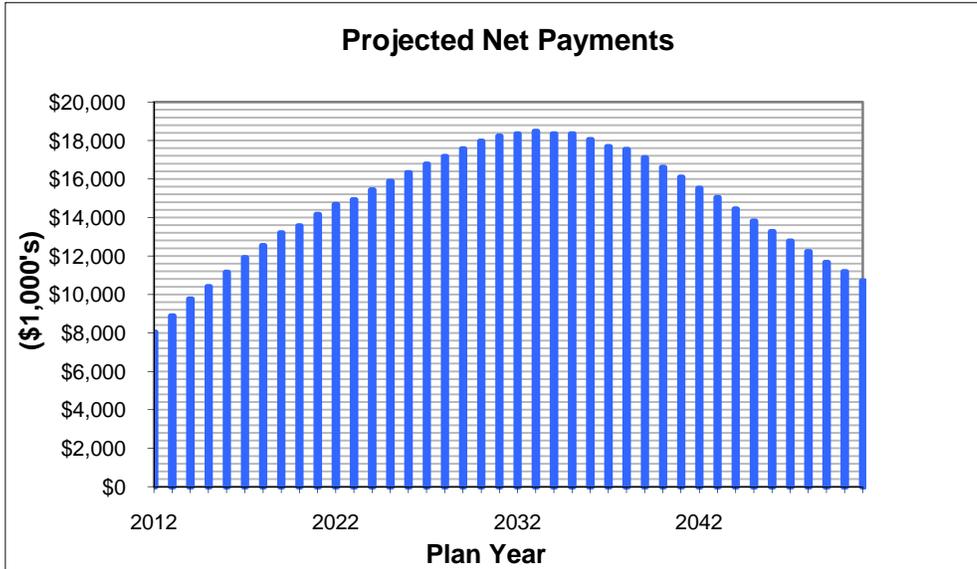
*\*this is a 2010 calendar year amount*



**City of Duluth, MN**  
**OPEB Valuation**

**Projected Net Retiree Benefit Payments**

Projected Net Payments - *projected benefit payments on behalf of retirees net of contributions received from retirees towards the cost of their benefit.*



FYE	Total
2012	\$8,049,400
2013	\$8,883,000
2014	\$9,771,700
2015	\$10,404,500
2016	\$11,152,700
2017	\$11,915,600
2018	\$12,546,900
2019	\$13,202,700
2020	\$13,573,900
2021	\$14,163,700



# City of Duluth, MN

## RETIREE HEALTH CARE PLAN PROVISIONS

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Valuation Date

June 1, 2011

Retiree Benefits

- 1) Continuation of medical, pharmacy, and dental benefits under the City's group plan. All current and future retirees are assumed to be covered under the same plans that cover active employees.
- 2) Life Insurance:  
\$25,000 life insurance for all eligible retirees  
Additional paid-up \$10,000 life insurance for eligible supervisors
- 3) Long-Term Disability: eligible to continue receiving health benefits and \$50,000 life insurance

Funding Rates

2011 Tier	Medical/Rx	
	Pre-65	Post-65
Retiree	\$475	\$386
Spouse	\$438	\$367

Life insurance: \$0.30 per month per thousand

Eligibility

*Police and Firefighters:*

Any age with 5+ years of service if hired before 1/1/2007

Age 50 with 5+ years of service if hired after 12/31/2006

*All Others:* Age 55 with 5+ years of service

*Supervisors:* May be eligible if involuntarily terminated

Dependents

Spouses and Surviving Spouses and children up to age 25 are eligible for healthcare benefits.

Length of Benefits

*Retiree:* Lifetime

*Spouse:* Lifetime

*Surviving Spouse:* Lifetime or until remarriage



# City of Duluth, MN

## RETIREE HEALTH CARE PLAN PROVISIONS

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Medical and Rx  
Contributions

*City Police and Fire:*

Hired after 12/31/2006: Retiree pays full premium.

Hired before 1/1/2007: Retiree contribution varies by length of service, as shown below.

*City Supervisory and Confidential:*

Hired after 12/31/2005: Retiree pays full premium.

Hired before 1/1/2006: Retiree contribution varies by length of service, as shown below.

*All Other City Employees:*

Hired after 12/31/2006: Retiree pays full premium.

Hired before 1/1/2007 with 15 years of service, and who retire before 12/15/2009: City pays full premium.

Hired before 1/1/2007: Retiree contribution varies by length of service, as shown below.

Life Insurance

City pays the full premium.

Per Capita Plan  
Costs for 2011

The medical and pharmacy costs reflect the claim costs for retirees. The costs include claims, reinsurance fees, and administrative expenses.

Pre-65: \$645

Post-65: \$280

Retiree Contribution by  
Length of Service\*

Years of Service	Retiree % Contribution	Years of Service	Retiree % Contribution
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%

\* As applicable based on Date of Hire



# City of Duluth, MN

## ACTUARIAL ASSUMPTIONS

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### Aging of Plan Costs

Medical costs have been centered at age 60 for the pre-Medicare participants and at age 75 for the post-Medicare retirees. Aging factors are applied to the average cost for the group to reflect lower costs for younger retirees and higher costs for older retirees. Costs are aged 2% a year pre-Medicare and 1% a year after Medicare.

### Medicare Offset

Members who are eligible for Medicare A and B are required to enroll. The City's plan pays secondary to Medicare. Future costs have not been reduced for Medicare D subsidies, in accordance with GASB 45.

### Health Care Cost Trend Rates

Year	Med, Rx
2012	10.00%
2013	9.50%
2014	9.00%
2015	8.50%
2016	8.00%
2017	7.50%
2018	7.00%
2019	6.50%
2020	6.00%
2021	5.50%
2022+	5.00%

### Contribution Trend Rates

Same as Health Care Cost Trend Rates above.



# City of Duluth, MN

## ACTUARIAL ASSUMPTIONS

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<u>Discount Rate</u>	<b>5.70%</b> GASB 43 and 45 stipulate that the discount rate should reflect the rate of return earned on the assets held in an irrevocable trust to fund retiree health care benefits.
<u>Election Rate</u>	<i>Current retirees:</i> Based on current coverage election. <i>Future retirees:</i> <ul style="list-style-type: none"><li>➤ Of employees who receive a City contribution, 100% are assumed to elect medical benefits once they are eligible for retirement.</li><li>➤ Of employees who pay the full premium, 25% are assumed to elect medical benefits once they are eligible for retirement.</li><li>➤ 25% of members are assumed to elect dental benefits once they are eligible for retirement</li></ul>
<u>Spousal Election Rate</u>	<i>Current Retirees:</i> Based on current coverage election. <i>Future Retirees:</i> 65% of retirees who elect medical and/or dental coverage at retirement will elect to cover a spouse as well.
<u>Spouse Age Difference</u>	For future retirees, male spouses are assumed to be 3 years older, and female spouses are assumed to be 3 years younger. For current retirees, the spouse's actual age is used.
<u>Actuarial Cost Method</u>	Projected Unit Credit
<u>Amortization</u>	Level Dollar Open over 30 years
<u>Actuarial Value of Assets</u>	Market Value
<u>Attribution Period</u>	From the date of hire to first eligibility for retirement
<u>Mortality</u>	2007 Current Liability Combined Mortality Table (sex distinct)



# City of Duluth, MN

## ACTUARIAL ASSUMPTIONS

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Termination Rates: The following termination tables incorporate all types of withdrawals such as disability, resignations, layoffs, and dismissals.

Age	Police, Fire	Others - Male	Others - Female
20	8.6%	8.4%	8.4%
30	2.8%	5.4%	5.4%
40	1.3%	3.0%	3.5%
50	0.5%	2.0%	2.5%
60	0.0%	0.0%	0.0%

Police and Fire hired before 1/1/2007 are eligible to retire after 5+ years of service.

Disability

Age	Rate
20	0.03%
30	0.03%
40	0.04%
50	0.21%
60	1.01%

Retirement Rates:

Age	Police, Fire	Other - Eligible for Rule of 90	Other - Not Eligible for Rule of 90
<50	Same as termination rates	0%	0%
50-51	20%	0%	0%
52	30%	0%	0%
53-54	35%	0%	0%
55-59	40%	67%	10%
60	75%	67%	25%
61	75%	67%	40%
62-64	80%	67%	40%
65	100%	50%	50%
66-69	0%	40%	40%
70	0%	60%	60%
71	0%	100%	100%

