

**CITY OF TAYLOR OTHER POSTEMPLOYMENT BENEFITS**  
**ACTUARIAL VALUATION REPORT**  
**JUNE 30, 2010**

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December 21, 2011

Mr. Dean Philo  
Director of Budget, Finance and Treasury  
City of Taylor  
23555 Goddard Road  
Taylor, Michigan 48180

Dear Mr. Philo:

Submitted in this report are the results of an Actuarial Valuation of the benefit values associated with the employer financed retiree health benefits provided by the City of Taylor. The date of the valuation was June 30, 2010.

This report was prepared at the request of the City of Taylor and is intended for use by the Plan and those designated or approved by the City. This report may be provided to parties other than the City only in its entirety and only with the permission of the City. This report should not be relied on for any purpose other than the purpose described in the primary communication.

The purpose of the valuation is to measure the Plan's financial status, to determine the Annual Required Contribution for the fiscal years ending June 30, 2011 and June 30, 2012, and to determine the actuarial information for Governmental Accounting Standards Board (GASB) Statements No. 43 and No. 45.

The valuation was based upon information furnished by the City concerning Plan benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal consistency, but did not otherwise audit the data. We are not responsible for the accuracy or completeness of the information provided by the City.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

The signing actuaries are independent of the plan sponsor.

One or more of the undersigned are Members of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Mr. Dean Philo  
December 21, 2011  
Page 2

To the best of our knowledge the information contained in this report is accurate and fairly presents the actuarial position of the plan as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices and with the Actuarial Standards of Practice issued by the Actuarial Standards Board.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Brad Lee Armstrong", with a long horizontal flourish extending to the right.

Brad Lee Armstrong, ASA, MAAA

A handwritten signature in black ink, appearing to read "Randall J. Dziubek", with a large, stylized initial "R" and "J".

Randall J. Dziubek, ASA, EA, MAAA

BLA:bd

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## **EXECUTIVE SUMMARY**

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## EXECUTIVE SUMMARY

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### **Annual Required Contribution**

This report presents the annual required contribution calculated in compliance with the accounting requirements of Governmental Accounting Standards Board (GASB) Statements No. 43 and No. 45.

The Annual Required Contribution (ARC) for the fiscal year beginning July 1, 2010 is estimated to be \$7,365,884 for the General group, \$392,798 for the Court group, and \$5,706,564 for the Police/Fire group. Actual claims and premiums paid on behalf of retirees may be treated as employer contributions in relation to the ARC and act to reduce the Net OPEB Obligation (NOO). The expected retiree health care claims and premium amounts paid during the fiscal year beginning July 1, 2010 are estimated to be \$3,182,549 for the General group, \$88,512 for the Court group, and \$2,743,200 for the Police/Fire group. These amounts reflect the employer portion of the retiree only premium rates and the implicit subsidy for retirees and covered spouses. Therefore, the expected employer pre-funding contribution net of employee contributions that would result in a zero NOO for June 30, 2011 are \$4,183,335 (\$7,365,884-\$3,182,549) for the General group, \$304,286 (\$392,798-\$88,512) for the Court group, and \$2,963,364 (\$5,706,564-\$2,743,200) for the Police/Fire group.

For additional details please see Section A of the report.

## EXECUTIVE SUMMARY

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### **Additional OPEB Reporting Requirements**

In addition to the annual OPEB cost described above, employers have to disclose a Net OPEB Obligation (or asset). The Net OPEB Obligation is the cumulative difference between annual OPEB costs and annual employer contributions in relation to the ARC, accumulated from the implementation of GASB Statement No. 45.

The requirements for determining the employer's contributions in relation to the ARC are described in paragraph 13 g. of GASB Statement No. 45. Additional information required to be disclosed in the employer's financial statements is detailed in paragraphs 24 through 27 of GASB Statement No. 45.

### **Liabilities and Assets**

The present value of all benefits expected to be paid to current plan members as of June 30, 2010 is \$128,134,794 for the General group, \$6,561,243 for the Court group, and \$119,476,055 for the Police/Fire group. The actuarial accrued liability, which is the portion of the present value of all benefits attributable to service accrued by plan members as of June 30, 2010, is \$106,559,713 for the General group, \$4,302,597 for the Court group, and \$97,683,765 for the Police/Fire group. The assets currently set aside for GASB OPEB purposes as of June 30, 2010 are \$0 for all groups.

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## **SECTION A**

### **VALUATION RESULTS**

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**CITY OF TAYLOR**  
**DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTIONS**  
**FOR THE OTHER POSTEMPLOYMENT BENEFITS**  
**FISCAL YEARS BEGINNING JULY 1, 2010 AND JULY 1, 2011**

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Contributions for	Development of the Annual Required Contribution for		
	General	Court	Police/Fire
Total Normal Cost	\$3,484,855	\$236,087	\$2,149,001
Amortization of Unfunded Actuarial Accrued Liabilities (Amortized over 30 years)	\$3,881,029	\$ 156,711	\$3,557,563
Annual Required Contribution (ARC) For Fiscal Year Ending June 30, 2011	\$7,365,884	\$392,798	\$5,706,564
ARC Per Active Participant	\$ 52,240	\$ 24,550	\$ 66,355
Annual Required Contribution (ARC) For Fiscal Year Ending June 30, 2012	\$7,464,092	\$403,870	\$5,824,176
ARC Per Active Participant	\$ 52,937	\$ 25,242	\$ 67,723

The results on this page are calculated under the assumption that the employer funding policy is to contribute only the pay-as-you-go health care premium/claims contributions and have no plan assets. Under this policy the employer should use an investment return assumption similar to that of the general fund earnings. **Therefore, the investment return assumption used to calculate the liabilities shown above is 4.0%.**

The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll over a period of 30 years. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with GASB requirements.

**CITY OF TAYLOR**  
**DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY**  
**AS OF JUNE 30, 2010**

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	<b>General</b>	<b>Court</b>	<b>Police/Fire</b>
A. Present Value of Future Benefits			
1. Retirees and Beneficiaries	\$ 64,319,597	\$ 1,801,360	\$ 73,964,177
2. Retired Members in Deferral Period	5,145,680	0	0
3. Active Members	<u>58,669,517</u>	<u>4,759,883</u>	<u>45,511,878</u>
Total Present Value of Future Benefits	\$ 128,134,794	\$ 6,561,243	\$ 119,476,055
B. Present Value of Future Employer Normal Costs	\$ 21,575,081	\$ 2,258,646	\$ 21,792,290
C. Present Value of Future Contributions from Current Active Members	\$ 0	\$ 0	\$ 0
D. Actuarial Accrued Liability (A.-B.-C.)	\$ 106,559,713	\$ 4,302,597	\$97,683,765
E. Market Value of Assets	\$ 0	\$ 0	\$ 0
F. Unfunded Actuarial Accrued Liability (D.-E.)	\$ 106,559,713	\$ 4,302,597	\$97,683,765
G. Funded Ratio (E./D.)	0.0%	0.0%	0.0%

The results on this page are calculated under the assumption that the employer funding policy is to contribute only the pay-as-you-go health care premium/claims contributions and have no plan assets. Under this policy the employer should use an investment return assumption similar to that of the general fund earnings. **Therefore, the investment return assumption used to calculate the liabilities shown above is 4.0%.**

The Unfunded Actuarial Accrued Liability (UAAL) is not booked as an expense all in one year and does not appear in the Employer's Statement of Net Assets. Nevertheless, it is reported in the Notes to the Financial Statements and in the Required Supplementary Information. These are information sections within the employer's financial statements.

## COMMENTS

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**COMMENT A:** One of the key assumptions used in any valuation of the cost of postemployment benefits is the rate of return on Plan assets. Higher assumed investment returns will result in a lower ARC. Lower returns will tend to increase the computed ARC. Based on our understanding of the City's funding policy, we have calculated the liability and the resulting ARC using an assumed long term rate of investment of 4.0%.

**COMMENT B:** Based on the number of plan members as of this valuation, the plan sponsor is required by GASB to perform actuarial valuations at least biennially. An annual actuarial valuation will recompute the required contribution rate each year. This will permit fluctuations and trends in experience to be reflected in the contribution rate on a regular basis.

**COMMENT C:** The contribution rates shown include amortization of the unfunded actuarial accrued liability over 30 years. This is the maximum time period permitted by the Governmental Accounting Standards Board Statement No. 45. A shorter amortization period would result in a higher ARC.

**COMMENT D:** Actual claims and/or premiums paid on behalf of retirees may be treated as employer contributions in relation to the ARC and act to reduce the NOO. For the fiscal years ending June 30, 2011 and June 30, 2012, the estimated claims and/or premiums paid by the employer on behalf of retirees are as follows:

	With Implicit Rate		Without Implicit Rate	
	FYE 2011	FYE 2012	FYE 2011	FYE 2012
<b>General</b>	3,182,549	3,568,755	2,608,197	\$2,909,653
<b>Court</b>	88,512	97,616	61,196	\$74,019
<b>Police/Fire</b>	2,743,200	2,992,251	2,385,131	\$2,595,567

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**SECTION B**

RETIREE PREMIUM RATE DEVELOPMENT

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## **RETIREE PREMIUM RATE DEVELOPMENT**

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Initial premium rates were developed for the two classes of retirees (pre-65 and post-65). Members have healthcare coverage through self-insured BCBSM plans, fully insured BCN Plans or Fully-insured HAP Plans.

The fully-insured and self-insured per capita costs were developed separately and then blended together based on enrollment to develop one set of per capita costs. The development of the fully-insured per capita costs and self-insured per capita costs are described below.

The fully-insured rates provided by the City of Taylor were utilized to determine the appropriate premium rates. The pre-65 fully-insured premiums are blended rates based on the combined experience of active and pre-65 retired members; therefore, there is an implicit employer subsidy for the non-Medicare eligible retirees since the average costs of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees. The true per capita cost for the pre-65 retirees is developed by adjusting the demographic differences between the active employees and retirees to reflect this implicit rate subsidy for the retirees. For the post-65 retirees, the fully-insured premium rate is used as the basis of the initial per capita cost without adjustments since the rate reflects the demographics of the post-65 retiree group.

The self-insured per capita costs were developed in a similar manner to the fully-insured with the additional step of calibrating the per capita costs to future cost projections provided by BCBSM.

Age graded and sex distinct premiums are utilized by this valuation. The premiums developed by the preceding process are appropriate for the unique age and sex distribution currently existing. Over the future years covered by this valuation, the age and sex distribution will most likely change. Therefore, our process “distributes” the average premium over all age/sex combinations and assigns a unique premium for each combination. The age/sex specific premiums more accurately reflect the health care utilization and cost at that age.

## **RETIREE PREMIUM RATE DEVELOPMENT (CONCLUDED)**

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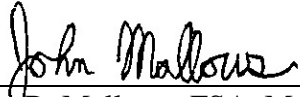
The combined monthly one-person medical, and drug premiums at select ages are shown below:

### **Current and Future Retirees**

<b>Not Eligible for Medicare</b>		
<b>Age</b>	<b>Male</b>	<b>Female</b>
45	\$456.02	\$597.01
50	616.95	699.04
55	806.34	828.85
60	1,013.00	973.72

<b>Eligible for Medicare</b>		
<b>Age</b>	<b>Male</b>	<b>Female</b>
65	\$645.90	\$594.79
70	745.04	669.94
75	827.12	734.05

The undersigned is a Member of the American Academy of Actuaries (M.A.A.A.) and meets the Qualification Standards of the American Academy of Actuaries to certify the per capita retiree health care rates shown above.

  
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John R. Mallows, FSA, MAAA

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## SECTION C

### SUMMARY OF BENEFIT PROVISIONS AND VALUATION DATA

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*The plan provisions described in this section were compiled to the best of our ability based on information provided by the City. In some cases where information was limited, assumptions were made that were generally based on corresponding provisions in the Retirement System. In the event that any description contained herein differs from the actual eligibility or benefit, the appropriate employee contract or governing document will prevail. If you have reason to believe that the plan provisions are incorrectly described, that important plan provisions relevant to this valuation are not described, or that conditions have changed since the calculations were made, you should contact the author of this report prior to relying on information in the report.*

**CITY OF TAYLOR OTHER POSTEMPLOYMENT BENEFITS**  
**FIRE**  
**SUMMARY OF BENEFITS AS OF JUNE 30, 2010**

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**Retiree Health Care Benefit**

*Amount* - The City provides fully paid retiree health care for the retiree, spouse and eligible dependents.

**Normal Retirement**

*Eligibility* - Any age with 20 or more years of service or age 60 regardless of service.

**Deferred (Vested) Retirement**

*Eligibility* - 10 or more years of service. Benefit commences at date retirement would have occurred if member had remained in employment.

**Duty Death Before Retirement Benefits**

*Eligibility* - Death while actively employed. Payable to the employee's spouse for life.

**Non-Duty Death Before Retirement Benefits**

*Eligibility* – Death while actively employed after 10 years of service. Payable to the employee's spouse for life.

**Death After Retirement**

Upon the death of the retiree, the City continues coverage of retiree health care for the lifetime of the spouse.

**Duty Disability Retirement**

*Eligibility* - No age or service requirement.

**Non-Duty Disability Retirement**

*Eligibility* – 5 or more years of service.

**Opt-Out** – The City offers \$150/\$300/\$400 for single/two-person/family coverage respectively in lieu of retiree health care coverage.

**Medicare Eligibility** – Retirees are required to enroll in Medicare once eligible. The City reimburses the retiree for their Medicare Part B premium.

**Dental/Optical** – Retiree is responsible for dental and optical premiums.

**Life Insurance** – Retirees are not eligible for life insurance.



**CITY OF TAYLOR OTHER POSTEMPLOYMENT BENEFITS  
POLICE PATROL/PUBLIC SAFETY  
SUMMARY OF BENEFITS AS OF JUNE 30, 2010**

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**Retiree Health Care Benefit**

*Amount* - The City provides fully paid retiree health care for the retiree, spouse and eligible dependents.

**Normal Retirement**

*Eligibility* - Any age with 20 or more years of service or age 60 regardless of service.

**Deferred (Vested) Retirement**

*Eligibility* - 10 or more years of service. Benefit commences at date retirement would have occurred if member had remained in employment.

**Duty Death Before Retirement Benefits**

*Eligibility* - Death while actively employed. Payable to the employee's spouse for life.

**Non-Duty Death Before Retirement Benefits**

*Eligibility* – Death while actively employed after 10 years of service. Payable to the employee's spouse for life.

**Death After Retirement**

Upon the death of the retiree, the City continues coverage of retiree health care for the lifetime of the spouse.

**Duty Disability Retirement**

*Eligibility* - No age or service requirement.

**Non-Duty Disability Retirement**

*Eligibility* – 5 or more years of service.

**Opt-Out** – The City offers \$150/\$300/\$400 for single/two-person/family coverage respectively in lieu of retiree health care coverage.

**Medicare Eligibility** – Retirees are required to enroll in Medicare once eligible.

**Dental/Optical** – Retiree is responsible for dental and optical premiums.

**Life Insurance** – Retirees are not eligible for life insurance.

**CITY OF TAYLOR OTHER POSTEMPLOYMENT BENEFITS**  
**POLICE COMMAND**  
**SUMMARY OF BENEFITS AS OF JUNE 30, 2010**

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**Retiree Health Care Benefit**

*Amount* - The City provides fully paid retiree health care for the retiree, spouse and eligible dependents. Police Command retiring after July 1, 2006 pay 10% of retiree health care premiums capped at an annual maximum of \$2,250.

**Normal Retirement**

*Eligibility* - Any age with 25 or more years of service or age 60 regardless of service.

**Deferred (Vested) Retirement**

*Eligibility* - 10 or more years of service. Benefit commences at date retirement would have occurred if member had remained in employment.

**Duty Death Before Retirement Benefits**

*Eligibility* - Death while actively employed. Payable to the employee's spouse for life.

**Non-Duty Death Before Retirement Benefits**

*Eligibility* – Death while actively employed after 10 years of service. Payable to the employee's spouse for life.

**Death After Retirement**

Upon the death of the retiree, the City continues coverage of retiree health care for the lifetime of the spouse.

**Duty Disability Retirement**

*Eligibility* - No age or service requirement.

**Non-Duty Disability Retirement**

*Eligibility* – 5 or more years of service.

**Opt-Out** – The City does not provide payment in lieu of retiree health care coverage.

**Medicare Eligibility** – Retirees are required to enroll in Medicare once eligible.

**Dental/Optical** – Retiree is responsible for dental and optical premiums.

**Life Insurance** – Retirees are not eligible for life insurance.

**CITY OF TAYLOR OTHER POSTEMPLOYMENT BENEFITS  
COURT EMPLOYEES/COURT SUPERVISORS  
SUMMARY OF BENEFITS AS OF JUNE 30, 2010**

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**Retiree Health Care Benefit**

*Amount* - The City provides fully paid retiree health care for the retiree, spouse and eligible dependents.

**Normal Retirement**

*Eligibility* - Age with 55 with 25 or more years of service, or age 60 with 10 years of service.

**Deferred (Vested) Retirement**

*Eligibility* - 10 or more years of service. Benefit commences at date retirement would have occurred if member had remained in employment.

**Duty Death Before Retirement Benefits**

*Eligibility* - Death while actively employed. Payable to the employee's spouse for life.

**Non-Duty Death Before Retirement Benefits**

*Eligibility* - Death while actively employed after 10 years of service. Payable to the employee's spouse for life.

**Death After Retirement**

Upon the death of the retiree, the City continues coverage of retiree health care for the lifetime of the spouse.

**Duty Disability Retirement**

*Eligibility* - No age or service requirement.

**Non-Duty Disability Retirement**

*Eligibility* - 10 or more years of service.

**Opt-Out** - The City does not provide payment in lieu of retiree health care coverage.

**Medicare Eligibility** - Retirees are required to enroll in Medicare once eligible.

**Dental/Optical** - Retiree is responsible for dental and optical premiums.

**Life Insurance** - The City provides \$6,000 of life insurance.

**CITY OF TAYLOR OTHER POSTEMPLOYMENT BENEFITS**  
**LOCAL 1128 AFSCME**  
**SUMMARY OF BENEFITS AS OF JUNE 30, 2010**

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**Retiree Health Care Benefit**

*Amount* - The City provides fully paid retiree health care for the retiree, spouse and eligible dependents.

**Normal Retirement**

*Eligibility if Hired On or After 8/4/88* - Age 55 with 10 or more years of service.

*Eligibility if Hired Before 8/4/88* - Earlier of: (a) Age 55 with 8 or more years of service (10 or more years if hired after 8/1/82), or (b) 25 years of service.

**Early Retirement**

*Eligibility if Hired On or After 8/4/88* - Age 50 with 10 or more years of service.

*Eligibility if Hired Before 8/4/88* - Earlier of: (a) Age 48 with 8 or more years of service (10 or more years if hired after 8/1/82), or (b) 18 years of service.

**Deferred (Vested) Retirement**

*Eligibility* - 8 or more years of service (10 or more years if hired after 8/1/82). Benefit commences at age 55.

**Death Before Retirement Benefits**

*Eligibility* - Death while actively employed after 8 or more years of service (10 or more years if hired after 8/1/82). Payable to the employee's spouse for life.

**Death After Retirement**

Upon the death of the retiree, the City continues full coverage of retiree health care for the lifetime of the spouse.

**Disability Retirement**

*Eligibility if Hired On or After 8/4/88*- 10 years of service credited in System, and must be eligible to receive Social Security disability benefits.

*Eligibility if Hired Before 8/4/88*- No age or service requirement, but must be eligible to receive Social Security disability benefits.

**CITY OF TAYLOR OTHER POSTEMPLOYMENT BENEFITS  
LOCAL 1128 AFSCME (CONCLUDED)  
SUMMARY OF BENEFITS AS OF JUNE 30, 2010**

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**Opt-Out** – The City does not provide payment in lieu of retiree health care coverage.

**Medicare Eligibility** – Retirees are required to enroll in Medicare once eligible.

**Dental**– Retiree is responsible for dental premiums.

**Life Insurance** – The City provides \$6,000 of life insurance.

**CITY OF TAYLOR OTHER POSTEMPLOYMENT BENEFITS  
LOCAL 1917  
SUMMARY OF BENEFITS AS OF JUNE 30, 2010**

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**Retiree Health Care Benefit**

*Amount* - The City provides fully paid retiree health care for the retiree, spouse and eligible dependents.

**Normal Retirement**

*Eligibility if Hired On or After 8/4/88*- Age 55 with 10 or more years of service.

*Eligibility if Hired Before 8/4/88*- Earlier of: (a) Age 55 with 8 or more years of service or (b) 25 years of service.

**Early Retirement**

*Eligibility if Hired On or After 8/4/88* - Age 50 with 10 or more years of service.

*Eligibility if Hired Before 8/4/88* - Earlier of: (a) Age 48 with 8 or more years of service or (b) 18 years of service.

**Deferred (Vested) Retirement**

*Eligibility* - 8 or more years of service (10 or more years if hired after 8/4/88). Benefit commences at age 55.

**Death Before Retirement Benefits**

*Eligibility* - Death while actively employed after 8 or more years of service (10 or more years if hired after 8/4/88). Payable to the employee's spouse for life.

**Death After Retirement** - Upon the death of the retiree, the City continues full coverage of retiree health care for the lifetime of the spouse.

**Disability Retirement**

*Eligibility if Hired On or After 8/4/88*- 10 years of service credited in System, and must be eligible to receive Social Security disability benefits.

*Eligibility if Hired Before 8/4/88*- No age or service requirement, but must be eligible to receive Social Security disability benefits.

**CITY OF TAYLOR OTHER POSTEMPLOYMENT BENEFITS  
LOCAL 1917 (CONCLUDED)  
SUMMARY OF BENEFITS AS OF JUNE 30, 2010**

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**Opt-Out** – The City does not provide payment in lieu of retiree health care coverage.

**Medicare Eligibility** – Retirees are required to enroll in Medicare once eligible. The City reimburses the retiree for their Medicare Part B premium.

**Dental** – The City provides dental benefits for those retired after 7/1/99.

**Life Insurance** – The City provides \$20,000 of life insurance.

**CITY OF TAYLOR OTHER POSTEMPLOYMENT BENEFITS  
TAYLOR GOVERNMENTAL MANAGEMENT AND ADMINISTRATIVE  
EMPLOYEES ASSOCIATION  
SUMMARY OF BENEFITS AS OF JUNE 30, 2010**

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**Retiree Health Care Benefit**

*Amount* - The City provides fully paid retiree health care for the retiree, spouse and eligible dependents.

**Normal Retirement**

*Eligibility if Hired On or After 05/18/88* - Age 55 with 5 or more years of service.

*Eligibility if Hired Before 05/18/88* - Age 55 with 4 or more years of service or any age with 25 or more years of service.

**Early Retirement**

*Eligibility* - Any age with 5 or more years of service (4 years if hired before 05/18/88).

**Deferred (Vested) Retirement**

*Eligibility* - 5 or more years of service (4 years if hired before 05/18/88). Benefit commences at age 55.

**Death Before Retirement Benefits**

*Eligibility* - Death while actively employed after 5 or more years of service (4 years if hired before 05/18/88). Payable to the employee's spouse for life.

**Death After Retirement**

Upon the death of the retiree, the City continues full coverage of retiree health care for the lifetime of the spouse.

**Disability Retirement**

*Eligibility* - No age or service requirement, but must be eligible to receive Social Security Disability Benefits.

**Opt-Out** – The City does not provide payment in lieu of retiree health care coverage.

**Medicare Eligibility** – Retirees are required to enroll in Medicare once eligible.

**Dental** – The City provides dental benefits for those retired after 1/1/2002.

**Life Insurance** – The City provides \$30,000 of life insurance.



**CITY OF TAYLOR OTHER POSTEMPLOYMENT BENEFITS  
ELECTED OFFICIALS  
SUMMARY OF BENEFITS AS OF JUNE 30, 2010**

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**Retiree Health Care Benefit**

*Amount* - The City provides fully paid retiree health care for the retiree, spouse and eligible dependents.

**Normal Retirement**

*Eligibility if Elected On or After 11/27/89* - Age 55 with 5 or more years of service.

*Eligibility if Elected Before 11/27/89* - Age 55 with 4 or more years of service or any age with 25 or more years of service.

**Early Retirement**

*Eligibility* - Any age with 5 or more years of service (4 years if elected before 11/27/89).

**Deferred (Vested) Retirement**

*Eligibility* - 5 or more years of service (4 years if elected before 11/27/89). Benefit commences at age 55.

**Death Before Retirement Benefits**

*Eligibility* - Death while actively employed after 5 or more years of service (4 years if elected before 11/27/89). Payable to the employee's spouse for life.

**Death After Retirement**

Upon the death of the retiree, the City continues full coverage of retiree health care for the lifetime of the spouse.

**Disability Retirement**

*Eligibility* - No age or service requirement, but must be eligible to receive Social Security Disability Benefits.

**Opt-Out** – The City offers \$150/\$300/\$400 for single/two-person/family coverage respectively in lieu of retiree health care coverage.

**Medicare Eligibility** – Retirees are required to enroll in Medicare once eligible.

**Dental** – Retiree is responsible for retired dental premiums.

**Life Insurance** – Retirees are not eligible for life insurance.

**CITY OF TAYLOR**  
**GENERAL – ACTIVE MEMBERS AS OF JUNE 30, 2010**  
**BY ATTAINED AGE AND YEARS OF SERVICE**

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Attained Age	Years of Service to Valuation Date							Totals
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.
20-24	1							1
25-29	4	2						6
30-34	4	3	6					13
35-39	6	1	8	5	1			21
40-44	4		14	3	3			24
45-49	6	5	9	5	6			31
50-54	4	4	9	7	5			29
55-59	3	2	2		1			8
60-64	1		1		1		1	4
65 & Over	2	1					1	4
<b>Totals</b>	<b>35</b>	<b>18</b>	<b>49</b>	<b>20</b>	<b>17</b>		<b>2</b>	<b>141</b>

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

**Age:** 45.0 years  
**Service:** 11.6 years

**CITY OF TAYLOR**  
**COURT – ACTIVE MEMBERS AS OF JUNE 30, 2010**  
**BY ATTAINED AGE AND YEARS OF SERVICE**

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Attained Age	Years of Service to Valuation Date							Totals
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.
20-24	1							1
25-29		2						2
30-34								
35-39			1					1
40-44		1	2					3
45-49				1	1	1		3
50-54		1			1			2
55-59			2					2
60-64	1							1
65 & Over					1			1
<b>Totals</b>	<b>2</b>	<b>4</b>	<b>5</b>	<b>1</b>	<b>3</b>	<b>1</b>		<b>16</b>

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

**Age:** 46.6 years  
**Service:** 12.7 years

**CITY OF TAYLOR**  
**POLICE/FIRE – ACTIVE MEMBERS AS OF JUNE 30, 2010**  
**BY ATTAINED AGE AND YEARS OF SERVICE**

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Attained Age	Years of Service to Valuation Date							Totals
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.
20-24								
25-29								
30-34		11	9					20
35-39	1	3	18	1				23
40-44		2	15	6	1			24
45-49			6		4			10
50-54			1	2	1			4
55-59		1	1		1			3
60-64							1	1
65 & Over					1			1
<b>Totals</b>	<b>1</b>	<b>17</b>	<b>50</b>	<b>9</b>	<b>8</b>		<b>1</b>	<b>86</b>

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

**Age:** 40.2 years  
**Service:** 12.7 years

**CITY OF TAYLOR**  
**RETIRED MEMBERS AS OF JUNE 30, 2010**  
**BY ATTAINED AGE**

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**General Retirees**

Attained Age	Number of Retirees		
	Male	Female	Totals
Under 55	6	6	12
55-59	27	13	40
60-64	19	11	30
65 & Over	66	58	124
<b>Totals</b>	<b>118</b>	<b>88</b>	<b>206</b>

**Court Retirees**

Attained Age	Number of Retirees		
	Male	Female	Totals
Under 55	0	1	1
55-59	0	0	0
60-64	1	3	4
65 & Over	0	0	0
<b>Totals</b>	<b>1</b>	<b>4</b>	<b>5</b>

**Police/Fire Retirees**

Attained Age	Number of Retirees		
	Male	Female	Totals
Under 55	30	3	33
55-59	23	0	23
60-64	33	3	36
65 & Over	59	17	76
<b>Totals</b>	<b>145</b>	<b>23</b>	<b>168</b>

Only members currently receiving or eligible to receive OPEB benefits in the future were shown above.

**CITY OF TAYLOR**  
**DEFERRED MEMBERS AS OF JUNE 30, 2010**  
**BY ATTAINED AGE**

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**General Members in Deferral Period**

<b>Attained Age</b>	<b>Number of Retirees</b>		
	<b>Male</b>	<b>Female</b>	<b>Totals</b>
Under 50	9	2	11
50-55	1	0	1
<b>Totals</b>	<b>10</b>	<b>2</b>	<b>12</b>

Only members currently receiving or eligible to receive OPEB benefits in the future were shown above.

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## **SECTION D**

### **ACTUARIAL COST METHOD AND ACTUARIAL ASSUMPTIONS**

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## VALUATION METHODS

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**Actuarial Cost Method.** Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an **Individual Entry-Age Actuarial Cost Method** having the following characteristics:

- (i) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement;
- (ii) each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Actuarial gains (losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

**Financing of Unfunded Actuarial Accrued Liabilities.** Unfunded Actuarial Accrued Liabilities (UAAL) were amortized by a level (principal and interest combined) percent of payroll contribution. The UAAL were determined using the funding value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL amortization payment is the level percent-of-payroll required to fully amortize the UAAL over a 30-year period beginning on the valuation date. This UAAL payment does not reflect any payments expected to be made between the valuation date and the fiscal year for which the contributions in this report have been calculated.

The salary increase assumption used in this actuarial valuation projects annual salary increases of 2.5% for General, 4.5% for Court, and 5.0% for Police/Fire plus a percentage based on an age or service based scale to reflect merit, longevity and promotional increases.



## ACTUARIAL ASSUMPTIONS

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*The rate of investment return (discount rate) under a Pay-As-You-Go arrangement* was 4.0% per year compounded annually. This rate consists of a real rate of return of 1.5% per year plus a long-term rate of wage inflation of 2.5% a year for General, a real rate of return of (0.5)% per year plus a long term rate of wage inflation of 4.5% for Court, and a real rate of return of (1.0)% per year plus a long term rate of wage inflation of 5.0% a year for Police/Fire. This assumption is used to equate the value of payments due at different points in time. In an unfunded program the investment return assumption must be commensurate with potential earnings on the employers' general account assets.

The number of active members is assumed to remain constant in the future.

The payroll growth rate for financing Unfunded Actuarial Accrued Liabilities was assumed to be 2.5% for General, 4.5% for Court and 5.0% for Police/Fire.

Unfunded actuarial accrued liabilities was amortized assuming a 3.5% growth rate which is the assumed ultimate health care trend.

## ACTUARIAL ASSUMPTIONS (CONTINUED)

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*The rates of salary increase* used for individual members are in accordance with the following tables. This assumption is used to project a member's current salary to the salaries upon which future contributions will be based. General members were assumed to have a flat 2.5% salary increase regardless of age or service.

### Police/Fire

% Increase in Salary at Sample Ages			
Sample Age	Base (Economic)	Merit & Longevity	Increase Next Year
20	5.00%	3.00%	8.00%
25	5.00	3.00	8.00
30	5.00	2.60	7.60
35	5.00	1.10	6.10
40	5.00	0.20	5.20
45	5.00	0.20	5.20
50	5.00	0.20	5.20
55	5.00	0.10	5.10
60	5.00	0.00	5.00

### Court

% Increase in Salary at Sample Ages			
Sample Age	Base (Economic)	Merit & Longevity	Increase Next Year
20	4.50%	8.40%	12.90%
25	4.50	5.33	9.83
30	4.50	3.26	7.76
35	4.50	2.05	6.55
40	4.50	1.30	5.80
45	4.50	0.81	5.31
50	4.50	0.52	5.02
55	4.50	0.30	4.80
60	4.50	0.00	4.50

## ACTUARIAL ASSUMPTIONS (CONTINUED)

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*The mortality table* used to project the mortality experience of General plan members is the 1971 Group Annuity Mortality Table projected to 1984, set back 0 years for men and 6 years for women. The mortality table used to project the mortality experience of Court plan members is a 50% Male – 50% Female blend of the 1994 Group Annuity Mortality Table. The mortality table used to project the mortality experience of Police/Fire plan members is the RP2000 Combined healthy Mortality Table. Post-disability mortality is set forward 10 years for all groups. 90% of General and Court active member deaths were assumed to be non-duty deaths. 50% of Police/Fire active member deaths were assumed to be non-duty deaths.

### General Members

Sample Attained Ages	Probability of Dying Next Year		Future Life Expectancy (years)	
	Men	Women	Men	Women
50	0.49%	0.24%	27.53	32.93
55	0.78	0.44	23.28	28.40
60	1.21	0.72	19.27	24.11
65	1.95	1.10	15.55	20.05
70	3.34	1.76	12.25	16.27
75	5.18	3.00	9.49	12.87
Ref	#68x1sb0yrs0Unisex		#70x1sb0yrs0Unisex	

### Court Members

Sample Attained Ages	Probability of	Future Life
	Dying Next Year	Expectancy (years)
50	0.20%	32.60
55	0.34	27.98
60	0.62	23.53
65	1.16	19.40
70	1.87	15.66
75	2.99	12.24
Ref	#261x1sb0yrs0.5Unisex#262x1sb0yrs0.5Unisex	

## ACTUARIAL ASSUMPTIONS (CONTINUED)

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### Police/Fire Members

Sample Attained Ages	Probability of Dying Next Year		Future Life Expectancy (years)	
	Men	Women	Men	Women
50	0.21%	0.17%	30.80	33.59
55	0.36	0.27	26.18	28.91
60	0.67	0.51	21.74	24.38
65	1.27	0.97	17.61	20.12
70	2.22	1.67	13.88	16.23
75	3.78	2.81	10.57	12.74
Ref	#506x1sb0yrs0Unisex		#507x1sb0yrs0Unisex	

## ACTUARIAL ASSUMPTIONS (CONTINUED)

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*The normal retirement assumption* used to measure the probability of eligible members retiring during the next year, were as follows:

<b>Retirement Ages</b>	<b>Age Based Retirement</b>	
	<b>Percent of Eligible Active Members</b>	
	<b>Retiring Within Next Year</b>	
	<b>Locals 1128 &amp;1917</b>	<b>Court</b>
50	50%	
51	50%	
52	50%	
53	50%	
54	50%	
55	50%	18%
56	10%	15%
57	10%	10%
58	10%	15%
59	10%	20%
60	100%	20%
61		24%
62		24%
63		24%
64		27%
65		30%
66		30%
67		30%
68		30%
69		30%
70		100%

All General members not listed in the above table were assumed to retire at their earliest normal retirement age.

**ACTUARIAL ASSUMPTIONS (CONTINUED)**

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**Service Based Retirement**

Years of Service	Percent of Eligible Active Members Retiring Within Next Year		
	Police Corp/Patrol	Police Command	Fire
20	70%		30%
21	20%		20%
22	20%		20%
23	20%		20%
24	20%		20%
25	100%	50%	50%
26		40%	50%
27		40%	50%
28		40%	50%
29		40%	50%
30		90%	100%
31		40%	
32		100%	

Police/Fire members were assumed to retire no later than age 60.

*The early retirement assumption* used in the valuation was as follows:

For members in Local 1128 AFSCME and Local 1917 hired on or after 8/4/88 an early retirement rate of 5% was assumed for 5 years prior to normal retirement.

For all General members not listed above an early retirement rate of 5% was assumed for 7 years prior to normal retirement.

**Court Members**

Retirement Ages	Percent of Eligible Active Members Retiring Early Within Next Year
50	2%
51	2
52	3
53	5
54	8
55	4
56	4
57	4
58	6
59	8
Ref	946

Police/Fire are not eligible for early retirement.

## ACTUARIAL ASSUMPTIONS (CONTINUED)

*Rates of separation from active membership* are used to estimate the number of employees at each age that are expected to terminate employment before qualifying for retirement benefits. The withdrawal rates do not apply to members eligible to retire, and do not include separation on account of death or disability.

Sample rates of separation from active employment are shown below:

Sample Ages	Service Index	Percent of Active Members Separating Within Next Year			
		General	Court	Police	Fire
ALL	0		18.0%	10.0%	8.0%
	1		18.0	8.0	6.0
	2		16.0	6.0	4.5
	3		12.0	4.0	3.0
	4		10.0	3.0	2.0
20	5 & Over	7.9%	9.0	3.0	2.0
25		7.7	9.0	3.0	2.0
30		7.2	9.0	2.6	1.7
35		6.3	7.0	1.5	0.9
40		5.2	5.0	0.6	0.34
45		4.0	4.0	0.3	0.3
50		2.6	4.0	0.3	0.3
55		0.9	3.0	0.3	0.3
60		0.1	3.0	0.3	0.3
65		0.0	2.0	0.3	0.3
Ref			263	14	13

## ACTUARIAL ASSUMPTIONS (CONCLUDED)

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*Rates of disability* among active members are used to estimate the incidence of member disability in future years. 100% of the General member disabilities were assumed to be non-duty, 85% of the Court member disabilities were assumed to be non-duty, and 50% of the Police/Fire member disabilities were assumed to be non-duty.

Sample Ages	Percent Becoming Disabled Within Next Year		
	Court	General and Police/Fire	
		Men	Women
20	0.02%	0.07%	0.03%
25	0.02	0.09	0.05
30	0.02	0.10	0.07
35	0.06	0.14	0.13
40	0.06	0.21	0.19
45	0.11	0.32	0.28
50	0.24	0.52	0.45
55	0.41	0.92	0.76
60	0.41	1.53	1.10
Ref	#257	#33	#34

*Health care trend rates* used in the valuation were as shown below:

Year	Medical and Drug Trend Rates
2011	9.00%
2012	8.25
2013	7.50
2014	6.75
2015	6.25
2016	5.75
2017	5.25
2018	4.75
2019	4.25
2020	3.50
2021	3.50
2022	3.50
2023 & Later	3.50



## MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

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<b>Decrement Operation:</b>	Disability and mortality decrements do not operate during the first 5 years of service. Disability and withdrawal do not operate during retirement eligibility.
<b>Decrement Timing:</b>	Decrements of all types are assumed to occur mid-year.
<b>Eligibility Testing:</b>	Eligibility for benefits is determined based upon the age nearest birthday and actual service on the date the decrement is assumed to occur.
<b>Incidence of Contributions:</b>	Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.
<b>Marriage Assumption:</b>	100% of General members, 70% of Court members, and 90% of Police/Fire members are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses for active member valuation purposes.
<b>Medicare Coverage:</b>	Assumed to be available for all covered employees on attainment of age 65.
<b>Election Percentage:</b>	It was assumed that 85% of retirees would choose to receive retiree health care benefits through the City. Of those assumed to elect coverage, 76% are assumed to elect two-person coverage, if eligible. For those that elect two-person coverage, it was assumed that coverage would continue to the spouse upon death of the retiree, if eligible.
<b>Loads:</b>	Health care liabilities for deferred retirees are loaded 160% for potential spouses.
<b>Health Care Trend Rates:</b>	Health care trend rates were assumed to increase on July 1 each year.

**GASB STATEMENTS NO. 43 AND NO. 45  
REQUIRED SUPPLEMENTARY INFORMATION**

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Valuation Date	June 30, 2010
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level Percent Open
Remaining Amortization Periods	30 Years
Asset Valuation Method	N/A
Actuarial Assumptions:	
Discount Rates	4.0% per Year
Projected Salary Increases	2.5% for General 4.5% - 12.9% for Court 5.0% - 8.0% for Police/Fire
Expected Health Care Cost Trend Rate	10% initial down to 3.5% ultimate over 10 years

**GASB STATEMENTS NO. 43 AND NO. 45**  
**REQUIRED SUPPLEMENTARY INFORMATION (CONCLUDED)**

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**Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
<b>June 30</b>	<b>(a)</b>	<b>(b)</b>	<b>(b)-(a)</b>	<b>(a)/(b)</b>	<b>(c)</b>	<b>((b-a)/c)</b>
2008	\$ 0	\$ 173,173,410	\$ 173,173,410	0.0 %	N/A	N/A
2010	\$ 0	208,546,075	208,546,075	0.0 %	12,239,209	1704%

**Schedule of Employer Contributions**

<b>Valuation Date</b>	<b>Fiscal Year Ending</b>	<b>Annual Required Contribution</b>	<b>Annual OPEB Costs</b>	<b>Percentage of ARC Contributed</b>	<b>Percentage of OPEB Costs Contributed</b>	<b>Net OPEB Obligation</b>
<b>June 30</b>	<b>June 30</b>					
2008	2009	\$ 12,759,379	\$ 12,759,379	43.1%	43.1%	\$ 7,265,786
2008	2010	13,221,333	13,291,601	46.0%	45.7%	14,480,957
2010	2011	13,465,246	13,517,091	N/A	N/A	N/A
2010	2012	13,692,137				

**This information is presented in draft form for review by the Plan and/or City auditor. Please let us know if there are any items that the auditor changes so that we may maintain consistency with the Plan and/or City financial statements.**

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# APPENDIX A

## OVERVIEW

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## **GASB BACKGROUND AND STANDARDS**

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The purpose of this valuation is to provide information on the cost associated with providing postemployment benefits other than pensions, or OPEB, to current and former employees. OPEB benefits are most often associated with postemployment health care, but cover almost any benefit not provided through a pension plan, including life insurance, dental and vision benefits. It is important to note that OPEB benefits, by definition, do not include benefits *currently* being provided to active employees, however, this report includes the liabilities for benefits expected to be paid to current active employees when they terminate employment at a future date.

The GASB determined that an OPEB plan was similar to a pension plan in that benefits are earned during an active employee's working lifetime but paid out at a future date. In the GASB's view, accounting for OPEB should follow the same basic principle as accounting for public plan pension costs. These benefits are compensation for employees' services and should be accounted for during the period of time that services are performed.

Unlike pension plans, OPEB plans often do not have a formal document detailing the specific terms of the plan. Under GASB Statements No. 43 and No. 45 the benefits to be accounted for are those provided by the *substantive plan* – loosely defined as the benefits covered by the plan as understood by the employer and plan members at the time of each actuarial valuation. The substantive plan provisions used in this valuation are summarized in Section E.

The specific items required to be disclosed on an OPEB sponsor's financial statements are described in detail in GASB Statements No. 43 and No. 45. In general terms, though, the plan sponsor is required to disclose an annual OPEB cost, the funded status of the plan and the funding progress on the valuation date.

Although GASB does not require OPEB contributions, it has chosen to call the base component of the annual OPEB cost the Annual Required Contribution, or ARC. The ARC consists of the cost of benefits accruing in a year plus an amount calculated to amortize any unfunded actuarial accrued liability over a period of not more than 30 years.

## **GASB BACKGROUND AND STANDARDS (CONCLUDED)**

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The funded status of the plan is a ratio of the plan's assets (if any) to the actuarial accrued liability on the valuation date. The plan is also required to disclose the cumulative difference between the annual OPEB costs and the employer's actual contribution to the plan. This amount is known as the Net OPEB Obligation (NOO). Each year, the NOO accumulates with interest, plus the difference between the ARC and actual contributions for the year, plus some technical adjustments. **For most plans the NOO is set to zero as of the effective date of the GASB OPEB standard. It is the NOO, and not the actuarial accrued liability, that will be disclosed on the employers' Statement of Net Assets.**

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## **APPENDIX B**

### **GLOSSARY**

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## GLOSSARY

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**Accrued Service.** The service credited under the plan which was rendered before the date of the actuarial valuation.

**Actuarial Accrued Liability.** The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as "accrued liability" or "past service liability."

**Actuarial Assumptions.** Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

**Actuarial Cost Method.** A mathematical budgeting procedure for allocating the dollar amount of the "actuarial present value of future plan benefits" between the actuarial present value of future normal cost and the actuarial accrued liability. Sometimes referred to as the "actuarial funding method."

**Actuarial Equivalent.** A single amount or series of amounts of equal value to another single amount or series of amounts, computed on the basis of the rate(s) of interest and mortality tables used by the plan.

**Actuarial Present Value.** The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

**Amortization.** Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.



## GLOSSARY (CONCLUDED)

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**Annual Required Contribution (ARC).** The ARC is the normal cost plus the portion of the unfunded actuarial accrued liability to be amortized in the current period. The ARC is an amount that is actuarially determined in accordance with the requirements so that, if paid on an ongoing basis, it would be expected to provide sufficient resources to fund both the normal cost for each year and the amortized unfunded liability.

**Governmental Accounting Standards Board (GASB).** GASB is the private, nonpartisan, nonprofit organization that works to create and improve the rules U.S. state and local governments follow when accounting for their finances and reporting them to the public.

**Medical Trend Rate (Health Care Inflation).** The increase in the cost of providing health care benefits over time. Trend includes such elements as pure price inflation, changes in utilization, advances in medical technology, and cost shifting.

**Normal Cost.** The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as "current service cost." Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.

**Other Postemployment Employee Benefits (OPEB).** OPEB are postemployment benefits other than pensions. OPEB generally takes the form of health insurance and dental, vision, prescription drugs or other health care benefits.

**Reserve Account.** An account used to indicate that funds have been set aside for a specific purpose and are not generally available for other uses.

**Unfunded Actuarial Accrued Liability.** The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as "unfunded accrued liability."

**Valuation Assets.** The value of current plan assets recognized for valuation purposes.