

RAMSEY COUNTY

*January 1, 2011 Actuarial Valuation of
Post-Employment Benefits
Under GASB Statement No. 45*

May 31, 2011

RAMSEY COUNTY

January 1, 2011 Actuarial Valuation of Post-Employment Benefits

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*January 1, 2011 Actuarial Valuation of Post-Employment Benefits***Introduction and Actuarial Certification**

Ramsey County (the County) has hired Van Iwaarden Associates to perform an actuarial valuation of the County's Other Post-Employment Benefits (OPEB's). The 'other' refers to post-employment benefits other than pensions. Accounting for these OPEBs is now required under Government Accounting Standards Board Statement No. 45 (GASB 45). The County implemented GASB 45 as required for the fiscal year ended December 31, 2007.

This valuation has been prepared to present information for financial reporting purposes. It is important to recognize that calculations performed for other purposes may yield significantly different results.

In conducting the valuation, we have used the following information as of January 1, 2011:

- the provisions of the substantive plans including: medical and dental
- census data
- premium information

All premium and census data were provided by the County.

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

The valuation has been conducted in accordance with generally accepted actuarial principles and practices. In our opinion, the actuarial assumptions represent reasonable expectations of anticipated plan experience. To fulfill the applicable accounting requirements, each actuarial assumption should be management's "best estimate" solely with respect to that individual assumption.

With passage of the Omnibus Tax Bill, a Minnesota County is now able to pre-fund OPEB benefits through a revocable or irrevocable trust. Pre-funding OPEB in a trust would allow more investment flexibility, which in turn could raise your GASB 45 discount rate and lower your liability. To date the County has established an OPEB internal service fund but not a trust.

The undersigned credentialed actuaries are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. We are available to answer questions on the material contained in the report or to provide explanations or further detail, as may be appropriate. We are not aware of any direct or material indirect financial interest or relationship that could create a conflict of interest or impair the objectivity of the work.



Brenda K. Hardy, ASA, MAAA
Consulting Actuary



Mary P. Ratelle, FSA, MAAA
(Health and dental claims/assumptions only)

L/D/C/R: 4/GG/BH/SB

May 31, 2011

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January 1, 2011 Actuarial Valuation of Post-Employment Benefits

Summary of Results

A. Valuation Census Data	<u>January 1, 2011</u>
1. Active employees	
a. Currently electing coverage	3,398
b. Declining coverage	<u>300</u>
c. Total	3,698
2. Retirees and beneficiaries	<u>1,827</u>
3. Total	5,525
 B. GASB 45 Funded Status	
1. Actuarial Accrued Liability (AAL)	
a. Implicit Rate Subsidy	44,620,370
b. Direct Subsidy	<u>263,014,450</u>
c. Total	307,634,820
2. Market value of assets	0
3. Unfunded Accrued Liability (UAL) (1. - 2.)	307,634,820
4. Employee payroll (January pay, annualized)	216,821,530
5. Unfunded Accrued Liability as a percentage of payroll	141.9%
 C. Reconciliation of Net OPEB Obligation (NOO)	
1. Net OPEB Obligation as of January 1, 2011	57,672,977
2. Annual OPEB Cost	26,463,298
3. Estimated County contributions during 2011	
a. Contributions to OPEB trust	0
b. Direct (explicit) subsidy	11,486,192
c. Implicit subsidy	<u>2,225,641</u>
d. Total (a. + b. + c.)	13,711,833
4. Estimated Net OPEB Obligation as of December 31, 2011 (1. + 2. - 3.)	70,424,442
 D. Effect of a 1% increase in Discount Rate (expected investment return)	
1. Percentage change in AAL	-12.51%
2. Percentage change in Annual OPEB Cost	-6.02%
 E. Key Assumptions	
1. Discount rate for liabilities (expected long-term investment return)	5.00%
2. Health care cost trend rate:	
Pre-Medicare	9% to 5% in 8 years
Medicare-eligible	7% to 5% in 4 years
3. Average expected retirement age for active employees	59.89
4. Percentage of employees expected to continue health coverage at retirement	see page 16

Valuation Census Data

This section presents the demographic information for the active and retired participants included in the OPEB valuation. The actuarial valuation was based on January 1, 2011 census data provided by the County. The following exhibits summarize the personnel characteristics of the data used for the study.

	No	Dental	Health		Total
			<u>Coverage</u>	<u>Coverage</u>	
A. OPEB					
1. Retired Participants and Widow(er)s					
a. Number under age 65	29	10	186	335	560
b. Number over age 65	<u>22</u>	<u>20</u>	<u>437</u>	<u>788</u>	<u>1,267</u>
c. Total	51	30	623	1,123	1,827
d. Average age					71.1
2. Active Participants					
a. Number of employees	300	119	1,364	1,915	3,698
b. Average age					47.0
B. Total Participants					5,525

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January 1, 2011 Actuarial Valuation of Post-Employment Benefits

Statement of Plan's Benefit Obligations

	<u>January 1, 2011</u>
A. OPEB	
1. Total actuarial present value of OPEB	\$539,300,833
2. Present value of future employee contributions	157,450,895
3. County-funded actuarial present value (1. - 2.)	381,849,938
4. Postretirement benefit obligation attributable to future service	<u>74,215,118</u>
5. Actuarial Accrued Liability (AAL) on January 1, 2011 (3. - 4.)	307,634,820
6. AAL Summary	
a. Summary by status	
i. Retiree liability - for payments before age 65	33,161,321
ii. Retiree liability - for payments after age 65	126,481,328
iii. Active employees	<u>147,992,171</u>
iv. Total AAL	307,634,820
b. Summary by Implicit Rate Subsidy and Direct Subsidy	
i. Implicit Rate Subsidy	44,620,370
ii. Direct Subsidy	<u>263,014,450</u>
iii. Total AAL	307,634,820
7. Estimated AAL on January 1, 2012	316,281,205

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January 1, 2011 Actuarial Valuation of Post-Employment Benefits

Breakdown of Actuarial Accrued Liability by Fund - Retirees

A. Breakdown of AAL	<u>Pre 65</u>	<u>Post 65</u>	<u>Total</u>
1. Early Retirees			
a. Fund 11101	21,951,889	27,992,509	49,944,398
b. Fund 11102	6,589,767	12,127,943	18,717,710
c. Fund 12101	315,804	554,375	870,179
d. Fund 12202	0	0	0
e. Fund 12302	164,824	426,637	591,461
f. Fund 12401	0	0	0
g. Fund 12901	0	0	0
h. Fund 13301	0	0	0
i. Fund 13901	0	0	0
j. Fund 14001	0	0	0
k. Fund 21101	650,020	648,537	1,298,557
l. Fund 21102	203,841	614,835	818,676
m. Fund 22102	358,274	806,434	1,164,708
n. Fund 22105	0	0	0
o. Fund 22109	0	0	0
p. Fund 22110	0	0	0
q. Fund 22112	190,972	457,853	648,825
r. Fund 22113	214,710	142,888	357,598
s. Fund 31110	<u>0</u>	<u>0</u>	<u>0</u>
t. Total	30,640,101	43,772,011	74,412,112
2. Regular Retirees			
a. Fund 11101	1,583,742	45,400,336	46,984,078
b. Fund 11102	552,840	25,726,527	26,279,367
c. Fund 12101	806	1,906,447	1,907,253
d. Fund 12202	0	120,853	120,853
e. Fund 12302	0	1,347,473	1,347,473
f. Fund 12401	0	0	0
g. Fund 12901	0	69,542	69,542
h. Fund 13301	0	0	0
i. Fund 13901	0	0	0
j. Fund 14001	0	0	0
k. Fund 21101	135,831	3,655,465	3,791,296
l. Fund 21102	114,971	1,671,673	1,786,644
m. Fund 22102	0	1,284,196	1,284,196
n. Fund 22105	0	0	0
o. Fund 22109	0	0	0
p. Fund 22110	0	0	0
q. Fund 22112	133,030	1,470,323	1,603,353
r. Fund 22113	0	0	0
s. Fund 31110	<u>0</u>	<u>56,482</u>	<u>56,482</u>
t. Total	2,521,220	82,709,317	85,230,537

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January 1, 2011 Actuarial Valuation of Post-Employment Benefits

Breakdown of Actuarial Accrued Liability and Normal Cost by Fund - Actives

A. Breakdown of AAL	Actuarial Accrued Liability			Service Cost
	Pre 65	Post 65	Total	
1. Actives				
a. Fund 11101	30,541,473	47,481,479	78,022,952	3,748,040
b. Fund 11102	13,761,978	23,697,891	37,459,869	1,755,886
c. Fund 12101	1,349,324	2,319,696	3,669,020	153,606
d. Fund 12202	7,772	83,888	91,660	3,512
e. Fund 12302	2,247,454	4,150,084	6,397,538	212,788
f. Fund 12401	494,527	1,161,676	1,656,203	63,085
g. Fund 12501	130,134	139,149	269,283	14,131
h. Fund 12901	0	0	0	0
i. Fund 13301	856,839	1,871,259	2,728,098	145,697
j. Fund 13901	2,038	2,316	4,354	954
k. Fund 14001	320,818	448,879	769,697	55,343
l. Fund 21101	1,482,493	2,193,532	3,676,025	210,832
m. Fund 21102	1,410,524	2,186,755	3,597,279	174,243
n. Fund 21104	11,948	15,390	27,338	3,799
o. Fund 22101	1,257,042	1,538,767	2,795,809	134,322
p. Fund 22102	1,159,491	1,921,671	3,081,162	120,637
q. Fund 22105	77,239	127,240	204,479	12,099
r. Fund 22109	10,133	23,656	33,789	3,655
s. Fund 22110	57,569	75,760	133,329	7,104
t. Fund 22112	713,990	1,121,910	1,835,900	77,177
u. Fund 22113	627,760	875,449	1,503,209	69,798
v. Fund 31110	<u>13,812</u>	<u>21,366</u>	<u>35,178</u>	<u>4,028</u>
w. Total	56,534,358	91,457,813	147,992,171	6,970,736

*January 1, 2011 Actuarial Valuation of Post-Employment Benefits***Changes in the Unfunded Actuarial Accrued Liability**

<i>A. Liability gain or loss for the period ending on December 31, 2010</i>	<u>OPEB</u>
1. Expected actuarial accrued liability (AAL)	
a. AAL as of January 1, 2009	272,698,609
b. Normal cost as of January 1, 2009	12,595,938
c. Benefit payments for two years	(24,305,014)
d. Interest to December 31, 2010 on a., b. and c.	<u>29,133,174</u>
e. Expected AAL on December 31, 2010 (sum of a. through d.)	290,122,707
2. Actual AAL on January 1, 2011	
a. Before any assumption, method or plan changes	294,387,274
b. After assumption, method changes, but before updated claims costs	309,379,158
c. After assumption, method and updated claims costs	307,634,820
3. Difference from the expected AAL	
a. (Gain) or loss due to plan experience different from that expected (2a. - 1e.)	4,264,567
b. Due to changes in actuarial assumptions and methods (2b. - 2a.)	14,991,884
c. Due to updated claims costs (2.c. - 2.b.)	<u>(1,744,338)</u>
d. Total (a. + b. + c.)	17,512,113
 <i>B. Asset gain or loss for the period ending on December 31, 2010</i>	
1. Expected value of assets	
a. Value of assets on January 1, 2009	0
b. Benefit payments for the two-year period	0
c. Company contributions for the two-year period	0
d. Interest to December 31, 2010 on a., b. and c.	0
e. Expected assets on December 31, 2010 (sum of a. through d.)	0
2. Actual assets on January 1, 2011	0
3. (Gain) or loss due to plan experience different from that expected (1e. - 2.)	0
 <i>C. Changes in the unfunded AAL</i>	
1. Unfunded AAL on January 1, 2009 (A.1.a. - B.1.a.)	272,698,609
2. Expected unfunded AAL on December 31, 2010 (A.1.e. - B.1.e.)	290,122,707
3. Changes	
a. Actuarial (gain) or loss (A.3.a. + B.3.)	4,264,567
b. Changes in actuarial methods and assumptions (A.3.b.)	14,991,884
c. Changes in claims costs (A.3.c.)	(1,744,338)
d. Total changes (a. + b. +c.)	17,512,113
4. Unfunded AAL on January 1, 2011 (A.2.c. - B.2.)	307,634,820

January 1, 2011 Actuarial Valuation of Post-Employment Benefits

Historical Reconciliation of Net OPEB Obligation(NOO)

The following tables show the balance sheet figures if the County followed GASB 45 accounting for the prior two years. The County provided the actual employer contributions and benefit payments.

A. Reconciliation of Net OPEB Obligation (NOO) for 2009

1. Net OPEB obligation as of January 1, 2009		34,145,915
2. Annual OPEB cost		
a. Annual required contribution	24,876,767	
b. Interest on net OPEB obligation	1,792,661	
c. Adjustment to ARC (amortization of NOO)	(2,284,940)	
d. Total (a. + b. + c.)		24,384,488
3. Employer contributions		
a. Employer contributions to OPEB trust	0	
b. Benefit payments by employer (not from trust)		
i. Direct (explicit) subsidy and implicit subsidy	12,337,151	
ii. Implicit subsidy (included above)	<u>0</u>	
iii. Total (i)+(ii)	12,337,151	
c. Total employer contributions (a) + (b)		<u>12,337,151</u>
4. Net OPEB obligation as of December 31, 2009 (1. + 2. - 3.)		46,193,252

B. Reconciliation of Net OPEB Obligation (NOO) for 2010

1. Net OPEB obligation as of January 1, 2010		46,193,252
2. Annual OPEB cost		
a. Annual required contribution	24,876,767	
b. Interest on net OPEB obligation	2,425,146	
c. Adjustment to ARC (amortization of NOO)	(3,091,111)	
d. Total (a. + b. + c.)		24,210,802
3. Employer contributions		
a. Employer contributions to OPEB trust	0	
b. Benefit payments by employer (not from trust)		
i. Direct (explicit) subsidy	10,690,085	
ii. Implicit subsidy	<u>2,040,992</u>	
iii. Total (i)+(ii)	12,731,077	
c. Total employer contributions (a) + (b)		<u>12,731,077</u>
4. Net OPEB obligation as of December 31, 2010 (1. + 2. - 3.)		57,672,977

January 1, 2011 Actuarial Valuation of Post-Employment Benefits

Schedule of Funding Progress and Annual OPEB Cost - GASB 45

The following tables show the income statement figures if the County follows GASB 45 accounting. The unfunded accrued liability is amortized as a level dollar amount over 30 years. Assumptions and methods used are described in subsequent sections.

A. Schedule of funding progress

1. Actuarial valuation date	January 1, 2009	January 1, 2011
2. Plan assets at fair value	\$0	\$0
3. Actuarial accrued liability (AAL)	272,698,609	307,634,820
4. Unfunded AAL (UAAL) (3. - 2.)	272,698,609	307,634,820
5. Funded ratio (2. / 3.)	0.00%	0.00%
6. Annualized employee payroll	\$201,065,043	\$216,821,530
7. UAAL as a percentage of covered payroll (4. / 6.)	135.63%	141.88%

B. Annual Required Contribution (ARC)*

1. Normal cost	\$6,970,736
2. Amortization of UAAL over 30 years	19,059,130
3. Interest to the end of the year	<u>1,301,493</u>
4. Total year-end ARC	27,331,359

C. Annual OPEB Cost

1. Annual required contribution as of December 31, 2011	27,331,359
2. Interest on net OPEB obligation (NOO)	2,883,649
3. Adjustment to ARC (amortization of NOO)	<u>(3,751,710)</u>
4. Annual OPEB cost (expense) (1. + 2. + 3.)	26,463,298

D. Four year history of OPEB information and 2011 projection

Fiscal Year Ended	Annual OPEB Cost	Pay-As-You-Go	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
		Annual Plan Sponsor Contribution **		
12/31/2007	29,213,298	9,632,905	32.97%	19,580,393
12/31/2008	28,931,009	14,365,487	49.65%	34,145,915
12/31/2009	24,384,488	12,337,151	50.59%	46,193,252
12/31/2010	24,210,802	12,731,077	52.58%	57,672,977
12/31/2011	26,463,298	13,711,833	51.81%	70,424,442

*This is a misleading term, but it is prescribed by GASB 45. No contribution is actually required to be made in cash.

** Estimated contribution for 2011 fiscal year.

*January 1, 2011 Actuarial Valuation of Post-Employment Benefits***Current and Projected Reconciliation of Net OPEB Obligation - GASB 45**

The following tables show the balance sheet figures when the County follows GASB 45 accounting. Assumptions and methods used are described in subsequent sections.

A. Reconciliation of estimated Net OPEB Obligation (NOO) for 2011

1. Net OPEB obligation as of January 1, 2011		57,672,977
2. Annual OPEB cost		
a. Annual required contribution	27,331,359	
b. Interest on net OPEB obligation	2,883,649	
c. Adjustment to ARC (amortization of NOO)	(3,751,710)	
d. Total (a. + b. + c.)		26,463,298
3. Contributions made including implicit subsidy (estimated)		
a. Contributions to OPEB trust	0	
b. Direct (explicit) subsidy	11,486,192	
c. Implicit subsidy	2,225,641	
d. Total (a. + b. + c.)		<u>13,711,833</u>
4. Estimated net OPEB obligation as of December 31, 2011 (1. + 2. - 3.)		70,424,442

B. Reconciliation of estimated NOO for 2012

1. Estimated net OPEB obligation as of January 1, 2012		70,424,442
2. Annual OPEB cost		
a. Annual required contribution	28,160,860	
b. Interest on net OPEB obligation	3,521,222	
c. Adjustment to ARC (amortization of NOO)	(4,581,211)	
d. Total (a. + b. + c.)		27,100,871
3. Contributions made including implicit subsidy (estimated)		
a. Contributions to OPEB trust	0	
b. Direct (explicit) subsidy	12,233,560	
c. Implicit subsidy	2,311,651	
d. Total (a. + b. + c.)		<u>14,545,211</u>
4. Estimated net OPEB obligation as of December 31, 2012 (1. + 2. - 3.)		82,980,102

For financial reporting purposes in accordance with GASB 45, an actuarial valuation should be performed every two years for plans with a total membership of 200 or more and every 3 years for plans with a total membership of less than 200. Membership includes retired participants and all employees, including those employees who waive coverage in the plans.

RAMSEY COUNTY

January 1, 2011 Actuarial Valuation of Post-Employment Benefits

Projection of Retirees' and County's OPEB Cash Flows

Fiscal Year	OPEB			
	(a)	(b)	(c)	(a) - (b) - (c)
Ending	Annual Retiree OPEB Claims	Retiree Paid Premiums	County Paid Premiums	Implicit Subsidy
2011	\$16,267,242	\$2,555,409	\$11,486,192	\$2,225,641
2012	17,509,608	2,964,397	12,233,560	2,311,651
2013	18,978,512	3,396,912	13,124,761	2,456,839
2014	20,449,317	3,940,863	13,880,191	2,628,263
2015	21,687,404	4,466,778	14,470,774	2,749,852
2016	22,843,518	5,005,044	14,976,581	2,861,893
2017	24,246,383	5,546,158	15,661,663	3,038,562
2018	25,465,145	6,041,735	16,197,153	3,226,257
2019	26,440,947	6,512,121	16,637,417	3,291,409
2020	27,283,412	6,909,694	17,090,335	3,283,383
2021	28,332,847	7,400,166	17,549,407	3,383,274
2022	29,072,996	7,797,235	17,887,854	3,387,907
2023	29,844,293	8,231,775	18,208,457	3,404,061
2024	30,719,609	8,617,528	18,669,949	3,432,132
2025	31,138,745	8,939,276	18,879,018	3,320,451
2026	32,382,792	9,368,555	19,475,104	3,539,133
2027	33,029,421	9,767,262	19,731,736	3,530,423
2028	33,611,363	10,110,640	19,953,100	3,547,623
2029	34,152,572	10,417,176	20,233,638	3,501,758
2030	34,631,858	10,743,704	20,451,174	3,436,980
2031	35,421,275	11,115,125	20,758,767	3,547,383
2032	35,967,151	11,462,055	20,879,035	3,626,061
2033	36,488,845	11,771,378	21,032,952	3,684,515
2034	36,971,974	12,049,630	21,170,142	3,752,202
2035	37,462,458	12,330,885	21,338,617	3,792,956
2036	37,754,250	12,561,208	21,380,215	3,812,827
2037	37,776,354	12,754,822	21,269,387	3,752,145
2038	38,154,022	12,990,257	21,274,803	3,888,962
2039	38,130,625	13,192,494	21,046,437	3,891,694
2040	38,058,714	13,342,903	20,819,109	3,896,702
2041	37,981,838	13,490,841	20,576,099	3,914,898

Note: Projections are based on a "closed group": current participants only, no future entrants.

*January 1, 2011 Actuarial Valuation of Post-Employment Benefits***Summary of Plan Provisions**

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

Post-Employment Medical

Eligibility for Participation

- Employee of Ramsey County who is covered by an employment contract which provides for post-employment medical benefits
- Employee eligible to participate in insurance program at the time of retirement
- Employee who is eligible to begin receiving benefits under PERA at the time they leave Ramsey County

PERA Eligibility Requirements

Age 55 with 3 years of service (5 years of service if hired after 7/1/2010), age 65 with 1 year of service, any age with 30 years of service (if enrolled in PERA prior to 7/1/1989), any age if eligible for PERA disability with 3 years of service, or age 50 with 3 years of service if in PERA Police and Fire Plan (10 years of service if hired after 7/1/2010)

Benefits:

Employees hired before July 1, 1992 with 20,800 hours of service or (10,400 hours of service if retiring under PERA disability)

County pays full defined county contribution

Employees hired between July 1, 1992 and January 1, 2006 with 41,600 hours of service (excluding those who made a one-time election to participate in Health Care Savings Plan)

County pays 50% of defined county contribution for 20 years of service, plus an additional 4% per year of service beyond 20, up to a maximum of 90% of the defined county contribution

Other eligible participants who do not meet years of service requirements or hired after January 1, 2006 and those electing one-time election to participate in HCSP

Retiree may continue medical coverage by paying the full premium

Defined County Contribution:

Retirees under age 65

County pays same contribution as paid for active employees (in 2011 participant pays \$31 per month for single coverage and \$455.10 for family coverage)

Retirees over age 65 who retired before January 1, 1996

County pays full premium

Retirees over age 65 who retired on or after January 1, 1996

County pays contribution not exceeding the county contribution for active employees, except member will pay at least \$35 per month for single coverage and at least \$80 per month for family coverage

Additional County Benefit:

Select group of grandfathered retirees

County reimburses the retiree for Medicare Part B premiums

*January 1, 2011 Actuarial Valuation of Post-Employment Benefits***Summary of Plan Provisions (continued)**Current Plans Sponsored by the County

The County currently sponsors health plans administered by HealthPartners and Ucare. Before retirees are eligible for Medicare they remain on the same plan as active County employees. After becoming eligible for the federally sponsored Medicare, Medicare becomes primary, meaning Medicare pays costs first and the County plan pays second. As a result, the County costs for Medicare-eligible retirees are substantially less compared to those not eligible for Medicare.

2011 Monthly Premiums

<u>Before Age 65</u>	<u>Premium</u>
<u>HealthPartners Distinctions</u>	
Single	\$740.40
Family (spouse with Medicare A & B)	1,020.80
Family	1,764.56
<u>After Age 65</u>	
<u>HealthPartners Freedom and National</u>	
Single (Medicare A & B)	280.40
Family (spouse with Medicare A & B)	560.80
Family (spouse without Medicare A & B)	1,020.80
<u>HealthPartners Major Medical (non-Medicare eligible plan)</u>	
Single	659.65
Family	1,321.16
<u>UCare for Seniors</u>	
Single (Medicare A & B)	222.00
Family (spouse with Medicare A & B)	444.00

Post-Employment Dental Insurance

Members eligible for post-employment medical benefits may also continue dental coverage by paying the full premium provided they have coverage at time of retirement.

2011 Monthly Dental Premiums

	<u>Premium</u>
Single	\$44.45
Family	99.00

January 1, 2011 Actuarial Valuation of Post-Employment Benefits

Summary of Plan Provisions (continued)

Severance

Contract

General County, Community Human Services,
 Licensed Practical Nurses, Workforce Solutions,
 Lake Owasso Residence, Ramsey Nursing Home,
 Parks and Recreation, and Public Health
 Registered Nurses

Severance Benefit

Option A: daily pay times one-half of unused sick days* up to a maximum of \$13,000

Option B: \$210 per year of service for years 1 through 10 plus \$280 per year for years 11 through 20 plus \$350 per year for years over 20, up to a maximum of \$7,000

Requirements

Option A: 10 years of service with at least 480 hours of unused accumulated sick leave

Option B: 20 years (41,600 hours) of service

*Employees are assumed to accumulate future unused sick leave based on the current average unused sick days of the eligible group. It was assumed each employee would accrue 35 hours of sick leave per year.

Because GASB 43/45 only applies to severance option B, we have not included severance liability when option A is projected to be larger than option B.

January 1, 2011 Actuarial Valuation of Post-Employment Benefits

Actuarial Assumptions

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

Discount Rate 5% per year

Age-based Monthly OPEB Costs Starting healthcare claims costs were developed using retiree medical claims, premium, and enrollment information provided by the County, Health Partners and Delta Dental. The results contained herein are highly dependent on the accuracy and credibility of the data provided to us.

Actual retiree claims experience, enrollment and demographic characteristics were evaluated to assess the sufficiency of funding levels (equivalent rates for self-funded business and premiums for insured business). Consideration was made for incurred versus paid claims, plan design changes, medical trend, and credibility. Claims experience was examined separately for Medicare-eligible and non-Medicare eligible retirees. The resulting per-capita starting claims costs were then age-adjusted using assumed OPEB aging factors to determine starting OPEB costs at each individual age. Sample costs are shown below.

<u>Age</u>	<u>Medical</u>	<u>Dental</u>
30	\$388.28	\$21.97
35	445.02	25.18
40	510.16	28.87
45	584.95	33.11
50	670.86	37.97
55	796.32	45.08
60	954.71	54.05
65	Actual premium	65.34
70	Actual premium	74.52
75	Actual premium	82.95

Health Trend Rates

<u>Year</u>	<u>Health Care Trend Rates</u>	
	<u>Not Medicare-Eligible</u>	<u>Medicare-Eligible</u>
2011	9.00%	7.00%
2012	8.50%	6.50%
2013	8.00%	6.00%
2014	7.50%	5.50%
2015	7.00%	5.00%
2016	6.50%	5.00%
2017	6.00%	5.00%
2018	5.50%	5.00%
2019+	5.00%	5.00%

Dental Trend Rate 5.00%

Severance Compensation Based on expected cost-of-living, merit, promotion and lane increases

January 1, 2011 Actuarial Valuation of Post-Employment Benefits

Actuarial Assumptions (continued)

Severance Benefit		The limits and per unit credits for severance benefits are assumed to remain constant.
Participation Rates	Actives	<p>100% of active participants hired before 7/1/1992 are assumed to elect post-employment medical coverage. 40% of these participants are assumed to elect coverage for a spouse.</p> <p>85% of active participants hired between 7/1/1992 and 1/1/2006 with 41,600 hours are assumed to elect post-employment medical coverage. 40% of these participants are assumed to elect coverage for a spouse.</p> <p>50% of active participants hired between 7/1/1992 and 1/1/2006 with less than 41,600 hours are assumed to elect post-employment medical coverage. 20% of these participants are assumed to elect coverage for a spouse.</p> <p>50% of active participants who were hired after 1/1/2006 or chose the HCSP are assumed to elect post-employment medical coverage. 20% of these participants are assumed to elect coverage for a spouse.</p> <p>70% of active participants currently electing dental coverage are assumed to elect post-employment dental coverage.</p>
	Inactives	<p>Early retirees are assumed to continue with current coverage until age 65, at which time they are assumed to elect coverage available to retirees over age 65.</p> <p>At age 65, 96.6% of retirees are assumed to elect HealthPartners Freedom, 1.4% are assumed to elect HealthPartners Major Medical, and 2% are assumed to elect UCare for Seniors.</p> <p>Those currently over age 65 are assumed to continue coverage until death.</p> <p>Only those currently electing coverage are assumed to elect future coverage.</p>
Spouse ages		Husbands are assumed to be three years older than wives.

January 1, 2011 Actuarial Valuation of Post-Employment Benefits

Actuarial Assumptions (continued)

Retirement Rates

The retirement decrements are the PERA retirement decrements, occurring at the beginning of a fiscal year. Rates varying by age and Rule of 90 eligibility. Sample rates as follows:

<u>Age</u>	<u>Rule of 90 Eligible*</u>	<u>Not eligible for Rule of 90</u>
55-57	20%	6%
58	20%	7%
59-60	20%	8%
61	25%	12%
62	35%	20%
63	25%	16%
64	25%	18%
65	35%	35%
66	25%	25%
67-70	20%	20%
71	100%	100%

*Employees must be hired before 7/1/1989 to be eligible for the Rule of 90

Mortality

RP-2000 fully generational with projection scale AA.

Withdrawal

Sample rates

Males

Age	Service									
	<u>0</u>	<u>2</u>	<u>4</u>	<u>5</u>	<u>9</u>	<u>10</u>	<u>15</u>	<u>20</u>	<u>25</u>	<u>30</u>
20	43.77%	23.19%	17.16%	14.61%	10.80%	10.70%	8.63%	6.28%	4.69%	4.38%
30	29.40%	21.02%	14.32%	9.88%	5.56%	5.56%	4.17%	4.17%	3.47%	3.15%
40	27.84%	14.60%	8.75%	7.37%	4.26%	3.92%	2.25%	2.15%	2.00%	1.88%
50	25.37%	12.13%	7.79%	6.40%	3.23%	3.23%	2.13%	0.99%	0.76%	0.76%

Females

Age	Service									
	<u>0</u>	<u>2</u>	<u>4</u>	<u>5</u>	<u>9</u>	<u>10</u>	<u>15</u>	<u>20</u>	<u>25</u>	<u>30</u>
20	45.01%	30.39%	19.39%	18.26%	17.82%	17.82%	11.10%	4.67%	4.08%	4.08%
30	34.72%	22.61%	15.19%	11.60%	6.10%	5.68%	3.58%	3.58%	2.81%	2.39%
40	26.09%	15.33%	11.11%	9.54%	5.53%	5.53%	3.58%	1.85%	1.75%	1.75%
50	25.18%	14.19%	9.98%	7.76%	4.08%	4.08%	3.32%	1.69%	1.41%	0.95%

*January 1, 2011 Actuarial Valuation of Post-Employment Benefits***Actuarial Assumptions (continued)**

Disability

None

Aging Factors

Age-based medical costs were determined by age-adjusting the starting claims costs using the following table.

<u>Age</u>	<u>Medical</u>	<u>Dental</u>
20 - 49	2.5%	2.5%
50 - 54	3.3%	3.3%
55 - 59	3.6%	3.6%
60 - 64	4.2%	4.2%
65 - 69	N/A	3.0%
70 - 74	N/A	2.5%
75 - 79	N/A	2.0%
80 - 84	N/A	1.0%
85 - 89	N/A	0.5%
90+	N/A	0.0%

Actuarial Method

OPEB benefits were calculated under the Projected Unit Credit cost method with a 30-year amortization of unfunded liability (open basis). OPEB benefits were attributed linearly to each assumed decrement age based on the ratio of a participant's accrued service on the valuation date to their projected service at each decrement age. Severance benefits were calculated under the Traditional Unit Credit cost method and were also attributed linearly to each assumed decrement age.

Valuation Date

January 1, 2011

Amortization of Unfunded
Actuarial Accrued Liability

Amortized as a level dollar amount over 30 years;
open basis (30-year period restarted with each valuation).

*January 1, 2011 Actuarial Valuation of Post-Employment Benefits***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 (GASB 43 for funded OPEB plans) and 45 (GASB 45 for employers) in 2004. The statements' objectives are to establish uniform standards of financial reporting by state and local governmental entities for postemployment benefit plans other than pension benefits (OPEB plans). This includes benefits such as postemployment healthcare benefits, dental insurance 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).

Valuing Postretirement Health Benefits

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. Future increases in health care costs are affected by many factors, including:

- OPEB 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

*January 1, 2011 Actuarial Valuation of Post-Employment Benefits***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.

For insured plans, the 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 retiree liability based on estimated retiree costs rather than premiums. Age-adjusted claims are developed and used to value the OPEB liability.

Under the Medicare Modernization Act of 2003 (MMA), a new prescription drug program called Medicare Part D was established. GASB requirements state that the determination of the actuarial accrued liabilities, the annual required contribution, and the annual OPEB cost should be done without reduction for Medicare Part D payments. The County plans are insured plans and the Plan Administrators establish the premium on a post-Part D basis, meaning premiums have been reduced to reflect the lower cost of the prescription drug coverage.

The new Affordable Care Act (the Act) will require employers to make changes to their health plans. We will continue to monitor the required changes and how they affect the County retiree plan. Some plan changes are required immediately and other changes are effective in later years. Calculating the financial impact of the Act at this time is difficult. Some of the Act's provisions will increase costs and others may decrease costs. For this valuation we have increased our health care trend rates slightly to account for expected future overall cost increases.

*January 1, 2011 Actuarial Valuation of Post-Employment Benefits***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 (GASB 43) and 45(GASB 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.

Annual OPEB Cost - the OPEB expense recognized in the employer's financial statements.

ARC - the Annual Required Contribution (ARC) - the basis for the annual OPEB cost shown in the employer's financial statements. This term is misleading: no annual cash contribution is actually required to fund OPEB benefits.

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

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

Implicit Subsidy or Implicit Rate Subsidy - the difference between the actual and apparent cost of OPEB coverage. The actual cost for early retirees is higher than the average per-person premium for the active/retiree group. Plans in which retirees pay the average active/retiree rate (the apparent cost) give rise to an implicit rate subsidy: the employer pays the difference between the actual and apparent cost.

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 for active employees which is allocated to the valuation year by the actuarial cost method.

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