GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

CITY OF FRASER RETIREE HEALTH CARE PLAN

ACTUARIAL VALUATION REPORT

AS OF JUNE 30, 2012

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October 31, 2013

Mr. Tim McCulloch
City of Fraser
Finance Director/Treasurer
33000 Garfield Road
Fraser, Michigan 48026

Dear Mr. McCulloch:

Submitted in this report are the results of an actuarial valuation of the assets and liabilities associated with the employer financed retiree health benefits provided by the City of Fraser. The date of the valuation was June 30, 2012. The annual required contributions have been calculated for the fiscal years beginning July 1, 2013, July 1, 2014 and July 1, 2015. This report was prepared at the request of the City and may be provided to parties other than the City only in its entirety and only with permission of the City.

The actuarial calculations were prepared for purposes of complying with the requirements of Statement No. 45 of the Governmental Accounting Standards Board (GASB). In addition, we have included information which may be helpful if there is a trust requiring a GASB Statement No. 43 disclosure. The calculations reported herein have been made on a basis consistent with our understanding of these accounting standards. Determinations of the liability associated with the benefits described in this report for purposes other than satisfying City of Fraser's financial reporting requirements may be significantly different than the values shown in this report.

The valuation was based upon information furnished by the City of Fraser concerning retiree health benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal and year-to-year consistency with the last valuation, but did not otherwise audit the data. As a result, we are not responsible for the accuracy or completeness of the information provided by the City of Fraser.

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. Due to the limited scope of this assignment, we did not perform an analysis of the potential range of future measurements.

To the best of our knowledge, this report is complete and accurate and was prepared in accordance with generally recognized actuarial methods. Louise Gates and James Anderson 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. The signing actuaries are independent of the plan sponsor.

Respectfully submitted,

Louise Gates

James D. Anderson

Louise Gates, ASA, MAAA   James D. Anderson, FSA, EA, MAAA

LG:bd

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Annual Required Contribution and OPEB Cost

This report presents the Annual Required Contribution (ARC), one component of the annual Other Postemployment Benefits (OPEB) cost required to be recognized by the plan sponsor for purposes of complying with the accounting requirements of the Governmental Accounting Standards Board (GASB) Statement No. 45. In addition, the plan may need to comply with GASB Statement No. 43. Please consult with legal counsel and your auditors to determine whether you have a plan for GASB Statement No. 43 purposes.

We have calculated the Annual Required Contribution (ARC) for the fiscal years beginning July 1, 2013, July 1, 2014 and July 1, 2015 under one interest rate assumption. A summary of these results is shown below. If there is a net OPEB obligation (NOO), the annual OPEB cost is equal to the ARC for the fiscal year plus one year's interest on the net OPEB Obligation plus an adjustment to the ARC.

Employer contributions to an OPEB trust act to reduce the NOO. In addition, actual premiums paid on behalf of retirees directly from the employer may be employer contributions in relation to the ARC that would act to reduce the NOO. This issue should be discussed with your auditor. The ARCs and estimated retiree premiums shown below include an adjustment for any implicit rate subsidy present in your pre-65 rates.

	Annual Required Contribution	Estimated Premiums Paid for Retirees
Fiscal Year Beginning 201	$5,452,197	$ 2,114,764
Fiscal Year Beginning 201	5,466,892	2,217,328
Fiscal Year Beginning 201	5,466,568	2,312,816

Section A of this report includes additional valuation results.

Additional OPEB Reporting Requirements – Net OPEB Obligation

In addition to the annual cost described earlier, employers will have to disclose a Net OPEB Obligation (or asset). The NOO is the cumulative difference between annual OPEB cost and annual employer contributions in relation to the ARC accumulated from the implementation of Statement No. 45. The NOO is zero as of the beginning of the fiscal year that Statement No. 45 is implemented unless the employer chooses to recognize a beginning balance. The requirements for determining the employer's contributions in relation to the ARC are described in paragraph 13 g. of Statement No. 45. Additional information required to be disclosed in the employer's financial statements is detailed in paragraphs 24 through 27 of Statement No. 45.

Liabilities and Assets as of June 30, 2012

The Present Value of Future Benefit Payments (PVFB) is the present value of all benefits expected to be paid from the plan for past and future service to current members. The Actuarial Accrued Liability is the portion of the PVFB allocated to past service by the Plan's funding method (see the report Section titled "Actuarial Cost Method and Actuarial Assumptions"). This information is summarized below.

1. Present Value of Future Benefit Payments	$83,760,070
2. Actuarial Accrued Liability	68,263,560
3. Plan Assets	416,750
4. Unfunded Actuarial Accrued Liability (2) – (3)	67,846,810
5. Funded Ratio (3)/(2)	0.6%

SECTION A

VALUATION RESULTS

DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTIONS

Contributions for	Development of the Annual Required Contribution
	Fiscal Year Beginning 2013
Employer Normal Cost	$1,386,517
Amortization of Unfunded Actuarial Accrued Liability	4,065,680
Annual Required Contribution (ARC)	$5,452,197
	Fiscal Year Beginning 2014
Annual Required Contribution (ARC)	$5,466,892
	Fiscal Year Beginning 2015
Annual Required Contribution (ARC)	$5,466,568

The unfunded actuarial accrued liabilities were amortized as a level dollar amount over a period of 24 years. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with the GASB requirements. The long term rate of investment return used in this valuation was 3.00%.

DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY AS OF JUNE 30, 2012

A. Present Value of Future Benefits	
i) Retirees and Beneficiaries	$46,328,447
ii) Vested Terminated Members	2,881,974
iii) Active Members	34,549,649
Total Present Value of Future Benefits	$83,760,070
B. Present Value of Future Normal Costs	15,496,510
C. Actuarial Accrued Liability (A.-B.)	68,263,560
D. Actuarial Value of Assets	416,750
E. Unfunded Actuarial Accrued Liability (C.-D.)	$67,846,810
F. Funded Ratio (D./C.)	0.6%

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

COMMENT A: One of the key assumptions used in any valuation of the cost of postemployment benefits is the rate of return on the assets that will be used to pay Plan benefits. Higher assumed investment returns will result in a lower ARC. Lower returns will tend to increase the computed ARC. We have calculated the liability and the resulting ARC using an assumed annual rate of investment return of 3.00%. A higher rate may be appropriate to develop the liabilities of the plan if the Plan sponsor chooses to pre-fund the entire ARC and invests the resulting assets in such a way to generate a higher investment return. If the Plan sponsor chooses to pre-fund with contributions less than the ARC (or not pre-fund at all), GASB requires the use of a lower investment return assumption. The assumed rate of investment return used in this valuation was determined by the actuary based on consultation with the Plan sponsor and their auditor.

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 triennially unless there are significant changes in the Plan population.

COMMENT C: The contribution amounts shown in this report were based on a 24-year amortization of the unfunded actuarial accrued liability. The maximum time period permitted by the GASB Statements No. 43 and No. 45 is 30 years. A shorter amortization period results in a higher ARC.

COMMENT D: This valuation of the retiree health plan reflects the following changes:

- Effective August 1, 2012, new retirees from City employment who are eligible for benefits from this Plan will receive the same health benefits in retirement that they had at the time their City employment ended, subject to the provisions shown on page C-1 of this report. Beginning in 2012, this is a high deductible savings plan from BCBS of Michigan.
- The assumed rate of future medical inflation was updated since the last valuation to better reflect anticipated future experience. Please refer to page E-7.

COMMENT E: The Actuarial Standards of Practice with regard to the mortality assumption have recently been revised. ASOP No. 35 Disclosure Section 4.1.1 now states *"The disclosure of the mortality assumption should contain sufficient detail to permit another qualified actuary to understand the provision made for future mortality improvement. If the actuary assumes zero mortality improvement after the measurement date, the actuary should state that no provision was made for future mortality improvement."* Currently, there is no margin for future mortality improvement in the mortality assumption used for the annual valuation of the System. We recommend that the Board update the mortality assumption based on the October 14, 2009 study for use in the June 30, 2013 and future valuations.

SECTION B

RETIREE PREMIUM RATE DEVELOPMENT

RETIREE PREMIUM RATE DEVELOPMENT

Initial premium rates were developed for the two classes of retirees (pre-65 and post-65). The fully-insured rates provided by the City of Fraser 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. Since we discovered that the plan is partially self-insured during the valuation process, the next valuation will be based on the group's own experience. This methodology change may have a material impact on the results of the next valuation.

The benefit options available to future retirees are different than current retirees. Future retirees take whatever insurance they have while active with them into retirement. We have developed separate premium rates for future retirees in order to reflect the benefit differences. The contributions the City will make to the retiree's HSA account have been added to the premium rates shown on the following page and therefore they are trended for future periods.

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

The combined monthly one-person medical and drug premiums used in this valuation of the plan (at select ages) are shown below:

For Those Not Eligible for Medicare (Pre-65)				
	Future Retirees		Current Retirees	
Age	Male	Female	Male	Female
40	$ 250.93	$ 393.15	$ 402.03	$ 629.87
50	461.26	522.64	738.99	837.32
60	757.36	727.99	1,213.39	1,166.33
64	881.54	817.10	1,412.32	1,309.09

For Those Eligible for Medicare (Post-65)				
	Future Retirees		Current Retirees	
Age	Male	Female	Male	Female
65	$ 740.77	$ 682.15	$ 740.77	$ 682.15
75	948.61	841.87	948.61	841.87
85	1,057.77	928.67	1,057.77	928.67

We did not “age grade” the dental and vision premium rates for this valuation, since dental and vision claims do not vary significantly by age. The average monthly dental premium used in this valuation is $30.03 per member per month. The monthly vision premium used in this valuation is $4.16 per member per month.

James E. Pranschke is a Member of the American Academy of Actuaries (MAAA) and meets the Qualification Standards of the American Academy of Actuaries to certify the per capita retiree health care rates shown above.

James E. Pranschke

James E. Pranschke, FSA, MAAA

SECTION C
SUMMARY OF BENEFITS

City of Fraser
Summary of the Benefits as of June 30, 2012

Health insurance coverage is provided by the City outside the Retirement System on the following basis:

- To eligible retired members of the Retirement System who meet the pension eligibility (Age 50 with 25 years of service or Age 55 with 10 years of service for most employees) conditions as described in the June 30, 2012 City of Fraser pension valuation.
- To eligible spouses of retirees during the retiree's lifetime.
- To eligible surviving spouses after the retiree's death.
- To vested deferred retirements hired before July 1, 1999.
- Retirees pay their own Medicare Part B premiums.
- For any eligible retiree hired before July 1, 1999, the City pays 100% of the cost of coverage for both the retiree and spouse. For those hired after June 30, 1999, the City will pay a portion of the total cost based on the following schedule.

	Portion Paid By City
10 years	40 %
15 years	60
20 years	80
25 years or more of service	100

- The portion of retiree health care costs paid by the City on behalf of eligible retirees (hired after 6/30/2000), is based on the following formula: 4% per year of service.

- Per the 7/1/2008 – 6/30/2011 DPW contract, the 7/1/2009 – 6/30/2012 POLC contract, and the 7/1/2009 – 6/30/2012 PSO/POAM contract employees hired after each contract was signed shall not be eligible for retiree medical benefits from this Plan. Instead they will have a Health Care Savings Plan (HCSP).

- Effective August 1, 2012 eligible retirees from City employment will receive the same health benefit plan that they had at the time their City employment ended.

SECTION D

SUMMARY OF PARTICIPANT DATA

TOTAL ACTIVE MEMBERS AS OF JUNE 30, 2012
BY AGE AND YEARS OF SERVICE

	Years of Service on Valuation Date							Totals
Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30 Plus**	**No.**
20-24	1							1
25-29	1	1						2
30-34	1	2	5					8
35-39	2	2	7					11
40-44	1	1	7	9	1			19
45-49		1	1	6	7	1		16
50-54		1			1			2
55-59		1	2	1				4
60-64								
65 & Over							1	1
Totals	**6**	**9**	**22**	**16**	**9**	**1**	**1**	**64**

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

Age:	42.1	years
Service:	14.0	years

TOTAL INACTIVE MEMBERS AS OF JUNE 30, 2012
BY AGE

Number of Retiree and Beneficiary Contracts#

	One Person Coverage^	Multiple Person Coverage*	Total
Male	10	53	63
Female	23	11	34
Total	33	64	97

 # Contract counts based on medical/prescription drug coverage elections.
** Includes family coverage.*
^ Includes members reported as receiving a flat dollar benefit in lieu of coverage.

	Current Retirees
Age	**Number of Contracts**
0-44	
45-49	1
50-54	10
55-59	14
60-64	25
65-69	20
70-74	6
75-79	13
80-84	5
85-89	3
90-94	
95 +	
Totals	97

The number counts above may be higher than the number receiving pensions due to the inclusion of MERS members and/or individuals receiving annuity payments outside of the Fraser Consolidated Retirement System.

Eight terminated members eligible for deferred Plan benefits were reported in connection with this valuation of the health plan. The average age of these members as of the valuation date is 47.6.

SECTION E

ACTUARIAL COST METHOD AND ACTUARIAL ASSUMPTIONS

ACTUARIAL METHODS

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 using the level dollar amortization method. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date and projected to the beginning of the fiscal year at the assumed rate of investment return.

Actuarial Value Assets. The Actuarial Value of Assets is set equal to the reported market value of assets.

ACTUARIAL METHODS

The following amortization factors were used in developing the Annual Required Contribution for the fiscal years shown on page 1 of this report are as follows:

	Fiscal Year Beginning July 01,		
	2013	**2014**	**2015**
Level Dollar Factor	17.1883	16.6890	16.1748

ACTUARIAL ASSUMPTIONS

The rate of investment return was 3.00% a year, compounded annually net after investment expenses.

The rates of salary increase used for individual members are in accordance with the following table. This assumption is used to project a member's current salary to the salaries upon which future contributions will be based.

Sample Ages	Wage Inflation
20	3.0 %
25	3.0
30	3.0
35	3.0
40	3.0
45	3.0
50	3.0
55	3.0
60	3.0

The mortality table was the 1971 Group Annuity Mortality Table projected to 2000, set back 0 years for men and 6 years for women.

Sample Attained Ages	Probability of Dying Next Year		Future Life Expectancy (years)	
	Men	Women	Men	Women
45	0.242%	0.125%	32.80	38.46
50	0.437%	0.213%	28.28	33.73
55	0.705%	0.392%	23.98	29.17
60	1.086%	0.646%	19.90	24.82
65	1.770%	0.987%	16.09	20.70
70	3.068%	1.593%	12.69	16.82
75	4.837%	2.740%	9.82	13.32
80	7.875%	4.455%	7.39	10.36
Ref	#168x1sb0yrs	#169x1sb0yrs		

The mortality assumption is used to measure the probabilities of members dying before retirement and the probabilities of each retiree health benefit payment being made after retirement. Membership size in this group is not sufficiently large to determine if there is a margin for mortality improvement. However, based on our experience with a broad cross section of public plans similar in nature to this plan, it is our opinion that there is no provision for future mortality improvement in the current mortality assumption.

Retirement Rates

The rates of retirement used to measure the probability of eligible members retiring during the next year were as follows.

Age	General Dispatchers, Management, & Supervisors	General All Others	Public Safety
50	30 %	30 %	40 %
51	20	30	30
52	15	20	30
53	15	20	20
54	15	20	20
55	25	15	50
56	10	15	35
57	10	10	35
58	10	10	35
59	10	10	35
60	10	10	100
61	10	10	100
62	20	20	100
63	10	10	100
64	10	10	100
65	100	100	100

The General member group includes members of the Dispatchers, Management, and Supervisors groups and those classified as all other members. Other members include members of the following groups: Office, Clerical and 39th District Court Workers, and Public Works.

Rates of separation from active membership are used to measure the probabilities of members remaining in employment. These rates do not apply to members eligible to retire and do not include separation on account of death or disability.

Sample Ages	Percent of Active Members Separating Within Next Year All Members
20	5.44 %
25	4.89
30	3.70
35	2.35
40	1.13
45	0.27
50	0.00
55	0.00
60	0.00
65	0.00

Since disability benefits are provided outside of the Retirement System, additional rates of termination from active employment are used in this valuation of the System for active Public Safety members in recognition of a higher incidence of termination due to the hazardous nature of their work.

Age	Additional Termination Rates
20	0.03 %
25	0.03
30	0.03
35	0.04
40	0.05
45	0.11
50	0.24
55	0.51
60	1.04

ACTUARIAL ASSUMPTIONS (CONCLUDED)

Health care cost trend rates are displayed in the following table:

Year After Valuation	Health Care Trend Inflation Rates	
	Medical/Drug	Dental/Vision
1	9.00%	3.00%
2	8.25	3.00
3	7.50	3.00
4	6.75	3.00
5	6.00	3.00
6	5.25	3.00
7	4.50	3.00
8	4.00	3.00
9	3.50	3.00
10 +	3.00	3.00

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

Administrative Expenses No explicit assumption has been made for administrative expenses.

Decrement Operation Disability and mortality decrements do not operate during the first 5 years of service. Disability also does not operate during retirement eligibility.

Decrement Timing Decrements of all types are assumed to occur mid-year.

Eligibility Testing Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.

Marriage Assumption 100% of males and 100% of females are assumed to be married at time of decrement. Male spouses are assumed to be three years older than female spouses for active member valuation purposes.

Medicare Coverage Assumed to be available for all covered employees on attainment of age 65. Disabled retirees were assumed to be eligible for Medicare coverage at age 65.

Health Care Coverage at Retirement The table below shows the assumed portion of future retirees electing one-person or two-person/family coverage, or opting out of coverage entirely.

		Two-Person/Family		
	One-Person	Electing	Continuing	Opt-Out
Male	25%	75%	100%	0%
Female	25%	75%	100%	0%

Other Changes related to the Patient Protection and Affordable Care Act (PPACA) are reflected to the extent they are already implemented in the Plan. No adjustment has been made to Plan liability in connection with potential future excise tax liability due to potential "Cadillac Plan" status.

APPENDIX A
OVERVIEW

GASB BACKGROUND

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. The information is designed to assist you in complying with Governmental Accounting Standards Board (GASB) Statements No. 43 and No. 45. 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 in the future when they retire.

GASB Statements No. 43 and No. 45 were released in the spring of 2004. GASB Statement No. 43 covers the accounting rules for OPEB *plans* while GASB Statement No. 45 describes the rules for *employers* sponsoring OPEB plans. Your auditor can assist you in determining which statements apply to your particular situation.

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.

GASB Statement No. 45

Among the requirements of Statement No. 45 are recognition each year of an expense called the Annual OPEB Cost, and the accumulation of a liability to be disclosed on the employer's Statement of Net Assets called the Net OPEB Obligation (NOO).

The fundamental items required to determine the Annual OPEB Cost and the NOO are:

- the Annual Required Contribution (ARC)
- the Employer's Contributions in relation to the ARC

Although GASB does not require OPEB contributions, it has chosen to call the base component of the annual OPEB cost the Annual Required Contribution. The ARC is provided in this report.

GASB BACKGROUND (CONCLUDED)

Paragraph 13g. of Statement No. 45 states:

> "An employer has made a contribution in relation to the ARC if the employer has:
>
> 1. made payments of benefits directly to or on behalf of a retiree or beneficiary,
> 2. made premium payments to an insurer, or
> 3. irrevocably transferred assets to a trust, or equivalent arrangement in which Plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the Plan and are legally protected from creditors of the employer(s) or plan administrator."

For each fiscal year shown in this report, we have provided the ARC and the estimated benefits and/or premiums (based on valuation assumptions).

The NOO is the cumulative difference between the Annual OPEB Cost each year and the Employer's Contribution in relation to the ARC. The Annual OPEB Cost for a year is equal to:

- the ARC, plus
- interest on the prior year's NOO, plus
- amortization of the prior year's NOO.

The Annual OPEB Cost and NOO are generally developed by the Plan sponsor's auditor based on information contained herein and elsewhere.

GASB Statement No. 43

If the Plan has assets for Statement No. 43 purposes, then certain additional information useful in complying with the Statement is contained in this report.

OPEB PRE-FUNDING

Many employers fund retiree health care benefits using the pay-as-you-go (or cash disbursement) method. Under this method, the employer's annual contribution is equal to the actual disbursements during the year for OPEB for retired employees. This method of funding will result in increasing contributions over time. First, per capita cash disbursements will tend to increase from year to year as the cost of health care services, or the utilization of these services, increases. Second, the number of retired members is likely to increase for years to come. The more retirees, the greater the disbursements as a percentage of employee payroll.

A retiree health care plan is similar to a defined benefit pension plan in that promises are made to employees to provide them with a benefit payable at some future date. For defined benefit pension plan sponsors, a common funding objective is to contribute to a fund, annual amounts which will i) remain level as a percentage of active member payroll, and ii) when combined with present assets and future investment return be sufficient to meet the financial obligations of the Plan to current and future retirees.

The GASB statements are not funding requirements. They are accounting standards that require plan sponsors to calculate the annual expense associated with OPEB using certain methods.

The ultimate determination as to the level of pre-funding will be the result of decisions made in an attempt to support benefit security for members and the fiscal management needs of the employer.

APPENDIX B

GLOSSARY

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

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 actuarial accrued 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.

Implicit Rate Subsidy. It is common practice for employers to allow retirees to continue in the employer's group health insurance plan (which also covers active employees), often charging the retiree some portion of the premium charged for active employees. Under the theory that retirees have higher utilization of services, the difference between the true cost of providing retiree coverage and what the retiree is being charged is known as the implicit rate subsidy.

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 Benefits (OPEB). OPEB are postemployment benefits other than pensions. OPEB generally takes the form of health insurance, dental, vision, prescription drugs, life insurance 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 actuarial accrued liability".

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

APPENDIX C

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF HEALTH FUNDING PROGRESS

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2006	$ 340,018	$ 49,708,098	$ 49,368,080	0.7 %	$ 6,020,985	819.9 %
2009	677,886	58,822,957	58,145,071	1.2	5,966,282	974.6
2012	416,750	68,263,560	67,846,810	0.6	4,955,687	1,369.1

SCHEDULE OF EMPLOYER HEALTH CONTRIBUTIONS

Valuation Year Ended June 30	Fiscal Year Beginning July 1	Annual Required Contribution (ARC)	Actual Contributions	Percentage Contributed
2006	2007	$ 3,372,473		
2009	2010	5,121,774		
2009	2011	5,119,785		
2009	2012	5,142,495		
2012	2013	5,452,197		
2012	2014	5,466,892		
2012	2015	5,466,568		

REQUIRED SUPPLEMENTARY INFORMATION

The following assumptions and methods were used in the June 30, 2012 actuarial valuation results shown on the previous page:

Valuation Date:	June 30, 2012
Actuarial Cost Method:	Entry-Age
Amortization Method:	Level Dollar, Closed
Remaining Amortization Period:	24
Asset Valuation Method:	Market Value
Actuarial Assumptions:	
Investment Rate of Return (discount rate):	3.00%
Wage Inflation Rate:	3.00%
Medical Care Cost Trend Rate:	9.0% Year 1 graded to 3.0% year 10