City of Victoria

GASB 45 Retiree Medical Valuation Report

October, 2011

HOLMES
MURPHY

THE CITY OF VICTORIA TEXAS

ACTUARIAL CERTIFICATION

As requested, Holmes Murphy has performed an actuarial valuation of the City of Victoria's retirement medical, prescription drug and dental benefits to determine the liability at September 30, 2011 and annual required contribution (ARC) for the fiscal years 2010/2011 and 2011/2012. The calculations reported herein are consistent with our understanding of GASB No. 45, with the actuarial standards of practice of the Actuarial Standards Board and in accordance with generally accepted accounting principles. Actuarial computations herein are for the purpose of fulfilling employer financial accounting requirements. Determinations for other purposes may be significantly different from these results.

In performing our calculations, we have relied on participant data, plan provisions, and claims data provided by the City. The accuracy of the information in this valuation is dependent on the quality and completeness of the information provided to us. We have not audited this information but have checked it for general reasonableness.

The actuarial assumptions and methods used in this valuation were adopted by the employer with the agreement of Holmes Murphy. It is our opinion that the actuarial assumptions are reasonable when each is considered independently based on its own merits, its consistency with each other and the combined impact of all assumptions.

The actuary is an associate of the Society of Actuaries, a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this valuation.

Please call Mark Van Buskirk at (214) 265-6318 should you require any further information or have any questions with respect to this report.

Very truly yours,
Holmes Murphy & Associates

By

Mark Van Buskirk

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HOLMES MURPHY

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Background

The City of Victoria offers its retirees and their dependents medical and prescription drug coverage for life. The City also offers dental benefits to its retirees but since the retirees are required to pay the full cost of the benefit, the liability for the dental plan is assumed to be zero. The pre-65 retiree plan is a continuation of the active plan. The post-65 plan is fully-insured Medicare supplement plan offered through Hartford.

History

2009 Valuation

Beginning FY '08-'09, the City of Victoria was required to account for its retiree medical plan using the Governmental Standards Accounting Board Statement Number 45 (GASB 45). Whereas before, these benefits were accounted for on a "pay-as-you-go" basis, now they have to be accrued when they are earned, i.e. during active service. Thus, during each year of active service, a piece of the present value of the future retirement benefit must be accrued so that when the employee reaches retirement age, the benefit is fully accrued.

In response to the implementation of GASB 45, the City chose to cap its contribution to the plan at the current levels except for the pre-65 contributions for those who were retired at the time. The pre-65 contributions for those who were retired at the time will continue to increase with medical trend. This caused the annual required contribution (ARC) to be less than the net benefits paid so the plan required no funding.

2011 Valuation

There were no significant changes for the 2011 valuation.

Summary of Results

The key results are as follows:

Valuation Results	2011	2009
Present Value of Benefits	$10,150,000	$11,054,000
Accrued Liability	$9,418,000	$10,148,000
Annual Required Contribution (current year)	$574,000	$597,000
Net OPEB Obligation at 9/30	$139,000	$0
Expected Net Benefits (following year)	$666,000	$597,000
Actual Net Benefit (current year)	$435,000	N/A

HIGHLIGHTS

The present value of benefits is the total cost of the program in today's dollars. The actuarial accrued liability is the portion of the present value of benefits that is attributed to service rendered to date. It is the amount that would have been accrued so far had the City been accounting on a GASB 45 basis all along. The annual required contribution (ARC) is the amount the City needs to accrue for the year to cover both the following year of benefit accrual and the amortization of the outstanding unfunded liability. The net OPEB obligation is the cumulative difference between the annual OPEB cost and funding, loosely, the cumulative annual cost that is unfunded. The expected net benefits are the projection of medical claims and expenses net of retiree contributions expected during the following year. And the actual net benefit payments are the medical claims and expenses net of retiree contributions that have been paid in the current year.

Note that the liability decreased 7.2% from $10,148,000 to $9,418,000. This was due to fewer actives being on the plan because of the closing of the plan.

Also note that there is expected to be a net OPEB obligation of $139,000 at the end of fiscal year 2011. Whenever the employer contributes less than the OPEB cost to the plan in a given year, the plan is considered to be underfunded for that year. This creates a net OPEB obligation (similar to a loan) which must be amortized and paid back over time. Net benefit payments are considered to be employer contributions. Since the City experienced favorable claims in fiscal year 2011, the net benefit payments i.e. the employer contributions were less than expected so the City "underfunded" their OPEB cost. This created the net OPEB obligation. However, this is assumed to be a temporary situation and the following year, the expected net benefit payments are once again assumed to be greater than the OPEB cost which should bring the net OPEB obligation back down to zero over time.

RESULTS

Annual Required Contribution (ARC)

This table shows the three components of the annual required contribution (ARC). The first component is the normal cost. This represents the accrual for the benefits that will be earned by the employees in the coming year.

The supplemental cost has two components: the initial liability and the gain/loss. The initial liability is the amount that would have been accrued to date by the City had GASB 45 been in place all along. Instead of requiring immediate recognition of this liability, GASB 45 allows a "catch-up" amortization of this amount over several years. A gain/loss occurs when the actual experience differs from the expected experience either from experience or a change in assumptions, method or plan provisions. Since the liability decreased more than expected from the prior valuation, there was a $522K gain. This was from more actives dropping off of the plan than expected. This "gain" gets amortized over time and together with the amortization of the initial liability, is the second component of the supplemental cost.

And finally, the third component of the ARC is the amortization of the net OPEB obligation. Since there was no funding required for the 2009 valuation, i.e. the ARC was less than the net benefit payments, the net OPEB obligation is zero for 2011. This will be a net OPEB obligation in fiscal year 2012 as discussed below.

Annual Required Contribution for:	FY '10-'11	FY '11-'12
Normal Cost Component		
Normal Cost	**$100,272**	**$100,272**
Supplemental Cost		
Initial Liability	$10,071,151	$10,007,471
Amortization	$494,623	$509,462
(Gain)/Loss	($521,532)	($522,772)
Amortization	($21,272)	($21,910)
Total Amortization	**$473,351**	**$487,552**
Amortization of Net OPEB Obligation		
Net OPEB Obligation (BOY)	$0	$138,834
Amortization	**$0**	**$5,305**
Annual Required Contribution (ARC)	$573,624	$593,129

Net OPEB Obligation

This table calculates the OPEB cost and obligation. The OPEB cost is the amount that needs to be funded each year. It consists of the annual required contribution (ARC) plus interest on any outstanding obligation from prior years. The net OPEB obligation is the cumulative difference between the OPEB cost and the employer contribution. It is the amount of the OPEB cost that remains "unfunded".

Fiscal year 2011 is the first year in which there is a net OPEB obligation. This is due to the favorable claims that the pre-65 retirees experienced in fiscal year 2011. Expected net benefit payments were around $650K but only $435K were paid out. Because of this, the net benefit payments were not enough to cover the OPEB cost causing a net OPEB obligation. This net OPEB obligation is assumed to be temporary however. In fiscal year 2012, the net benefit payments are expected to more than cover the OPEB cost again causing the net OPEB obligation to decrease back down to zero.

Annual OPEB Cost (FY '10-'11)	FY '10-'11	FY '11-'12
Annual Required Contribution (ARC)	$573,624	$593,129
Interest on Net OPEB Obligation	$0	$6,248
Adjustment to ARC	$0	$5,305
Annual OPEB Cost	$573,624	$594,072
Employer Contribution	($434,790)	($666,243)
Increase/(decrease) In Net OPEB Obligation	$138,834	($72,172)
Net OPEB obligation (BOY)	$0	$138,834
Net OPEB obligation (EOY)	$138,834	$66,662

Employer Contribution Percentage

This table discloses the percentage of the annual OPEB cost the employer contributed for the past three years. The contributions are a combination of the retiree benefits that are paid plus contributions to an irrevocable trust. Again due to the capping of the plan, the net benefit payments have been less than the annual OPEB cost so that no funding is required and the City has actually been contributing more than 100% of the OPEB cost.

Employer Contribution Percentage				
Fiscal Year Ending	***Annual OPEB Cost***	***Employer Contribution***	***Percentage Contributed***	***Net OPEB Obligation***
9/30/09	$597,000	$597,000	100%	$0
9/30/10	$657,000	$657,000	100%	$0
9/30/11	$573,624	$434,790	76%	$138,834
9/30/12	$594,072	$666,243	112%	$66,662

Required Supplementary Information

This table shows what percent of the liability is funded and what percent of the covered payroll the unfunded liability represents. The City has not had to fund any of the benefit to date and it is assumed that they will not need to fund any in the future. The plan is closed and most years, the expected net benefit payments will be greater than the OPEB cost.

Note also that the liability is approximately one-third of payroll.

Required Supplemental Information						
Fiscal Year Ending	*Actuarial Accrued Liability (AAL)*	*Actuarial Value of Assets*	*Unfunded AAL*	*Funded Ratio*	*Covered Payroll*	*UAAL as a % of Payroll*
9/30/09	$10,148,222	$0	$10,148,222	0%	$29,762,000	34.1%
9/30/10	$10,283,626	$0	$10,283,626	0%	$30,952,000	33.2%
9/30/11	$9,417,793	$0	$9,417,793	0%	$30,514,794	30.9%
9/30/12	$9,497,294	$0	$9,497,294	0%	$31,430,238	30.2%

PLAN PROVISIONS

Plan design

Pre-65 City retirees can continue the active core plan. The post-65 retirees enroll in a Medicare supplement plan offered by the Hartford.

Valuation Date	October 1, 2011	
Eligibility	Minimum of 1) Age 60 with 5 years of service with the City 2) 20 years of service with TMRS	
Survivor eligibility	Spouses are covered for life beyond the death of either a retiree or an active that was eligible to retire.	
Medical Benefits (Pre-65)		**Core Plan**
	Deductible:	$1,000/$1,000
	Coinsurance:	80%/60%
	OOP Max:	$5,000/$15,000
	Office Visits	
	Primary:	$25 co-pay
	Specialist:	$40 co-pay
Pharmacy Benefits (Pre-65)	Deductible:	$0
	Generics:	$10
	Preferred:	$25
	Non-Preferred:	Max of ($50 or 20%)
	Mail Order	2 X Retail
Medicare Integration (Post-65 Benefits)	Medicare Supplement Plan	
Annual Maximum	None	
Lifetime Maximum	Unlimited	
Dependents	Spouses receive coverage for life.	

2011 Retiree Contributions (monthly)

Retirees who retired before 1/1/2009 pay (service at the time of retirement):

	30+ YOS	20-29 YOS	0-19 YOS
Pre-65 Retirees	$136.00	$272.00	$680.00
Post-65 Retirees	$68.00	$136.00	$340.00
Dependents	Full Cost	Full Cost	Full Cost

Retirees who retired after 12/31/2008 pay (service at December 31, 2008):

	20+ YOS	10-19 YOS	0-9 YOS
Pre-65 Retirees	$136.00	$272.00	$340.00
Post-65 Retirees	$68.00	$136.00	$340.00
Dependents	Full Cost	Full Cost	Full Cost

Employees in service at 12/31/08 were grandfathered into one of the 3 categories (20+; 10-19; 0-9) based on their years of service at 12/31/08. New-hires on or after 1/1/09 fall into the category of 0-9 years of service, and will remain in that category, no matter how many years of service they have at retirement.

For those who retired before 1/1/2009, the pre-65 retiree contribution is a percent of cost (20% for 30+ years of service, 40% for 20-29 years of service and 100% for less than 20 years of service). Thus the pre-65 contribution that the City pays on behalf of those who retired before 1/1/2009 will increase with trend. The City's contributions toward all other tiers (all post-65 and pre-65 for those who retire after 12/31/2008) are fixed so that the retirees will be responsible for 100% of the increase due to trend.

A. Claims Cost and Trend Assumptions

1. Current annual retiree medical claims cost (administration costs are included):

Age	PMPY
Pre-65	$8,160
Post-65	$4,080

2. Annual healthcare trend rates:

	Current Retirees		Future Retirees	
Year	**Pre-65**	**Post-65**	**Pre-65**	**Post-65**
2011 – 2012	10.00%	0.00%	0.00%	0.00%
2012 – 2013	9.75%	0.00%	0.00%	0.00%
2013 – 2014	9.50%	0.00%	0.00%	0.00%
2014 – 2015	9.25%	0.00%	0.00%	0.00%
2015 – 2016	9.00%	0.00%	0.00%	0.00%
2016 - 2017	8.75%	0.00%	0.00%	0.00%
2017 – 2018	8.50%	0.00%	0.00%	0.00%
2018 - 2019	8.25%	0.00%	0.00%	0.00%
2019 – 2020	8.00%	0.00%	0.00%	0.00%
2020 – 2021	7.75%	0.00%	0.00%	0.00%
2021 – 2022	7.50%	0.00%	0.00%	0.00%
2022 – 2023	7.25%	0.00%	0.00%	0.00%
2023 – 2024	7.00%	0.00%	0.00%	0.00%
2024 – 2025	6.75%	0.00%	0.00%	0.00%
2025 – 2026	6.50%	0.00%	0.00%	0.00%
2026 – 2027	6.25%	0.00%	0.00%	0.00%
2027 – 2028	6.00%	0.00%	0.00%	0.00%
2028 – 2029	5.75%	0.00%	0.00%	0.00%
2029 – 2030	5.50%	0.00%	0.00%	0.00%
2030 – 2031	5.25%	0.00%	0.00%	0.00%
2031 +	5.00%	0.00%	0.00%	0.00%

3. Discount rate: 4.50%

4. Salary Scale: 3.00%

B. Employee Demographic Assumptions

1. Mortality: RP 2000 Combined Healthy Mortality Table projected to 2010 using the AA scale. Representative rates per thousand are as follows:

Age	Male	Female
20	0.285	0.163
30	0.422	0.239
40	0.996	0.607
50	1.783	1.412
60	5.742	4.808
70	19.091	15.923
80	58.213	42.767
90	176.202	127.784
100	341.126	235.103

2. Withdrawal: TMRS Low Turnover Table adjusted to match the City's experience.

Service	Male Withdrawal Rates	Female Withdrawal Rates
0	.4883	.5030
1	.3103	.3544
2	.2450	.3086
3	.2123	.2711
4	.1878	.2368
5	.1649	.2025
6	.1470	.1698
7	.1274	.1388
8	.1078	.1143
9	.0915	.0947
10	.0784	.0817
11	.0653	.0702
12	.0555	.0621
13	.0474	.0539
14	.0392	.0457
15	.0359	.0376
16	.0327	.0294
17	.0294	.0261
18	.0278	.0212
19	.0278	.0196
20+	.0278	.0196

3. Retirement Rates: Younger hired-age employees based on service; older hire-aged employees based on age:

Age	Retirement Rates	Service	Retirement Rates
45 - 49	3.10%	10 – 14	1.00%
50 – 54	6.60%	15 – 19	1.20%
55 – 59	13.30%	20 – 24	5.10%
55 - 57	8.6%	25 – 29	8.30%
60	27.90%	30 – 34	21.80%
61	45.20%	35 – 39	30.90%
62	23.50%	40 +	100.0%
63	7.70%		
64	33.30%		
65	62.50%		
66	66.70%		
67 +	100.0%		
70+	100.0%		

4. Percent Married: 0.00%; dependents pay full cost.
5. Participation Percentage: 60.0%
6. Spouse's Age: Not applicable; dependents pay full cost.

C. Methodology

Actuarial Cost Method

The projected unit credit cost method was used. This method determines the present value of benefits and then allocates that value equally to each year of service from the date of hire to full eligibility.

Development of claims cost

Pre-65 retiree medical and Rx claims and admin and stop-loss fees were projected to the following fiscal year and age-adjusted to age 65 using age factors. This age-65 cost was then allocated to all pre-65 ages based on the same age factors. Similarly, the post-65 retiree premiums paid to the Medicare supplement plan was allocated to all of the post-65 ages using the same age factors.

Actuarial Value of Assets: Fair Value

Amortization Methodology:

1. Method: Level Percentage of Projected Payroll
2. Period: 24 Years
3. Type: Closed

CENSUS DATA

A. Active Age-Service Chart

	Years of Service						
Age	0 – 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	Total
0 - 24	6	1	0	0	0	0	7
25 - 29	35	23	0	0	0	0	58
30 - 34	19	27	6	0	0	0	52
35 - 39	9	28	25	4	0	0	66
40 - 44	5	17	17	9	12	1	61
45 - 49	8	11	12	14	14	12	71
50 - 54	8	7	6	14	15	15	65
55 - 59	4	5	7	6	3	6	31
60 - 64	2	6	1	3	2	1	15
65+	2	1	0	1	0	0	4
Total	98	126	74	51	46	35	430

Average Age: 42.5
Average Service: 11.8

B. Retiree Census

Category	Retirees	Spouses	Total	Avg. Age
Pre-65 Retirees	69	N/A	69	59.4
Post-65 Retirees	103	N/A	103	75.2
Total	172		172	68.9