



RSM! McGladrey

GASB 45 July 1, 2007 Estimated
Liability Information and 2008 Annual
Required Contribution Estimate

Dorchester County Government
Postretirement Health Insurance Plan

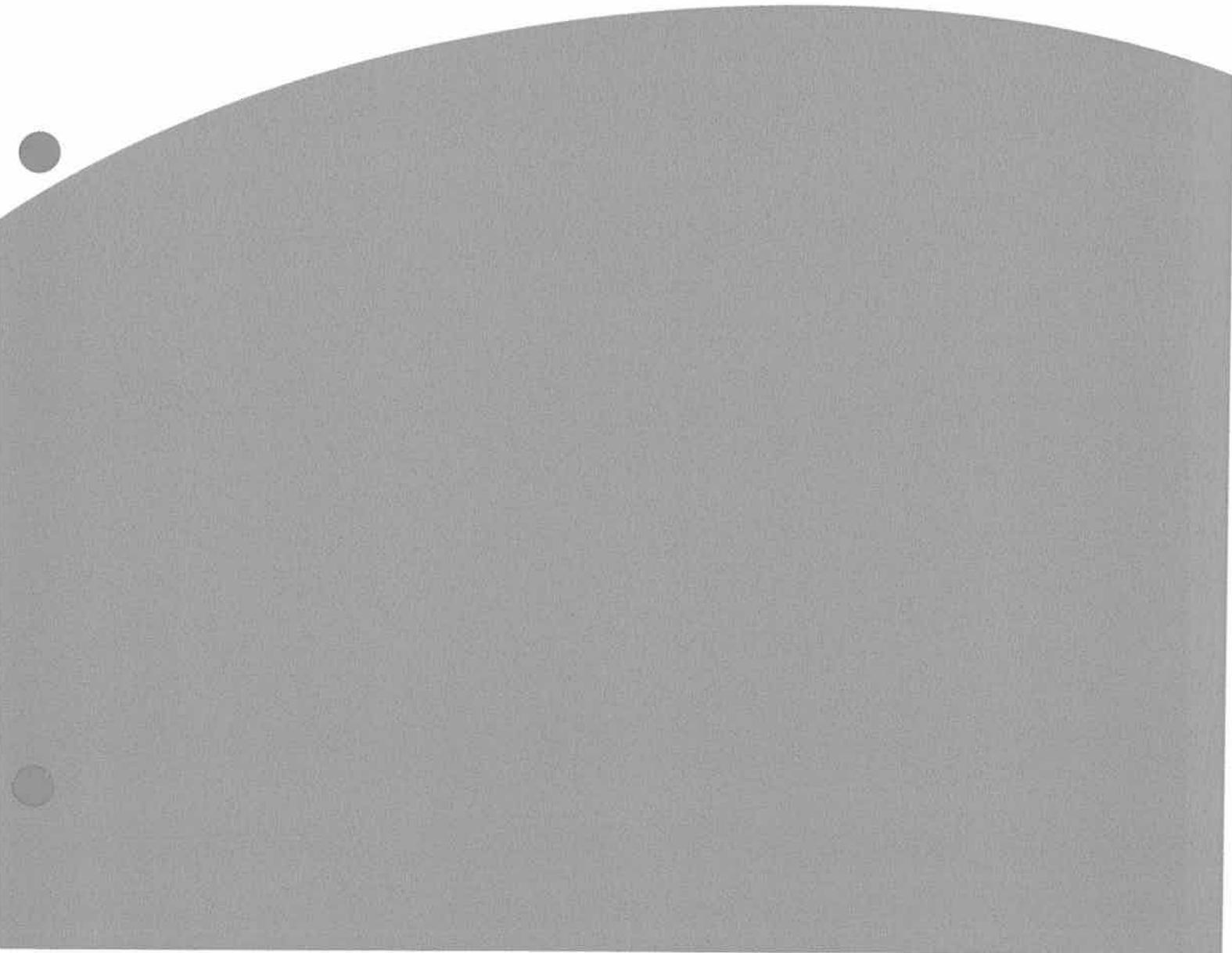


Table of Contents

Actuarial Certification.....	1
Executive Summary.....	2
Section 1 – Annual Required Contribution for 2008.....	3
Section 2 – Determination of Net OPEB Obligation.....	4
Section 3 – Expected Benefit Payments.....	5
Section 4 – Plan Participants.....	6
Section 5 – Health Care Claims Development.....	7
Section 6 – Summary of Plan Provisions.....	8
Section 7 – Actuarial Basis.....	12
Table 7.1 – Actuarial Methods.....	13
Table 7.2 – Actuarial Assumptions.....	14
Section 8 – Overview of Government Accounting Standards Board (GASB) Statement No. 45.....	16

Actuarial Certification

This report contains calculations for the estimated July 1, 2007 liability measurement and the estimated fiscal 2008 Annual Required Contribution for the Dorchester County Government Postretirement Health Insurance Plan as set forth in GASB Statement of Accounting Standard No. 45 (GASB No. 45).

The calculations are based on employee data and plan information provided by Dorchester County Government as of July 1, 2007. This information was reviewed for reasonability but we cannot attest to the accuracy of this information.

Actuarial computations under GASB No. 45 are for purposes of fulfilling employer financial accounting requirements. These calculations have been made on a basis consistent with our preliminary understanding of GASB No. 45. The Statement does not purport to comply with (a) generally accepted actuarial principles and practices for funding or allocation of costs to time; (b) accounting standards for plan reporting; (c) governmental requirements for reporting, funding and determining tax deductibility; or (d) actuarial standards for determining the adequacy of available assets in the event of plan termination or for other purposes. Determinations for purposes other than meeting employer financial accounting requirements may be significantly different from the results reported here.

The valuation complies with the generally accepted accounting principles including the Actuarial Standards Board Actuarial Standards of Practice relating to postretirement benefits other than pensions.

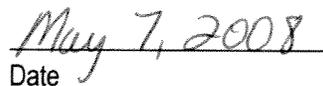
RSM McGladrey Retirement Resources has no relationships with Dorchester County Government or any of its officers or key personnel, other than this assignment, that would impair our objectivity in the performance of this assignment.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.

RSM McGladrey Retirement Resources



Brian S. Blalock, ASA, MAAA
Consulting Actuary



Date

May 2008

Executive Summary

	July 1, 2007
Actuarial Accrued Liability (AAL)	
Actives at Full Attribution Age	357,509
Actives not yet at Full Attribution Age	13,418,834
Retirees and Dependents	<u>5,526,021</u>
Total	\$ 19,302,364
Annual Required Contribution (ARC)	\$ 1,732,488
Assumed Contributions (based on "Pay As You Go" Funding)	\$ 450,403
Estimated Net OPEB Obligation (NOO) at June 30, 2008¹	\$ 1,282,085
Participant Information	
Actives at Full Attribution Age	4
Actives not yet at Full Attribution Age	290
Retirees	57
Dependents	<u>27</u>
Total	378

This report provides the Actuarial Accrued Liability (AAL) and the Annual Required Contribution (ARC) that will be required under Statement of Government Accounting Standards No. 45 as described in Section 8 of this report. The calculations are as of July 1, 2007.

Dorchester County Government is required to implement the provisions of GASB Statement No. 45 for the fiscal year beginning July 1, 2008. This should be confirmed with your auditors.

¹ Assumes implementation for the fiscal year beginning July 1, 2007.

Section 1 – Annual Required Contribution for 2008

The following table summarizes the development of the Annual Required Contribution for 2008 assuming Dorchester County Government funds the obligation using a "pay as you go" approach.

Annual Required Contribution Under GASB No. 45	
Investment Return Assumption: Discount Rate	4.50%
(1) Normal Cost (cost of fiscal year benefit accruals)	\$ 1,014,471
(2) Actuarial Accrued Liability (AAL)	19,302,364
(3) Actuarial Value of Assets	<u>0</u>
(4) Unfunded Actuarial Accrued Liability (UAAL): (2) - (3)	19,302,364
(5) 30-Year Amortization of the UAAL ¹	643,412
(6) Interest Adjustment	74,605
(7) Annual Required Contribution (ARC): (1) + (5) + (6)	\$ 1,732,488

¹ Maximum acceptable amortization period. Other methods for amortizing can be selected.

Section 2 – Determination of Net OPEB Obligation

Determination of the Net OPEB Obligation	
(1) Annual Required Contribution	\$ 1,732,488
(2) Interest on Net OPEB Obligation (NOO)	0
(3) Adjustment to Annual Required Contribution	<u>0</u>
(4) Annual OPEB Cost (Expense): (1) + (2) + (3)	\$ 1,732,488
(5) Assumed Contributions	<u>450,403</u>
(6) Increase in Net OPEB Obligation (NOO): (4) - (5)	\$ 1,282,085
(7) Net OPEB Obligation (NOO) at beginning of year	\$ 0
(8) Estimated Net OPEB Obligation (NOO) at end of year: (6) + (7)	\$ 1,282,085

The accumulated Net OPEB Obligation (NOO) at implementation of GASB No. 45 is \$0. In addition, upon implementation, disclosing the first year of liability and assumptions would satisfy the Required Supplementary Information (RSI).

Section 3 – Expected Benefit Payments

Expected Future Benefit Payments	
For Fiscal 2008	\$ 450,403
For Fiscal 2009	539,637
For Fiscal 2010	616,836
For Fiscal 2011	686,079
For Fiscal 2012	780,999
For Fiscal 2013	871,848
For Fiscal 2014	957,564
For Fiscal 2015	1,046,460
For Fiscal 2016	1,133,307
For Fiscal 2017	1,204,030
For Fiscal 2018	1,291,768
For Fiscal 2019	1,402,307
For Fiscal 2020	1,477,616
For Fiscal 2021	1,559,299
For Fiscal 2022	1,641,041
For Fiscal 2023	1,844,912
For Fiscal 2024	1,941,601
For Fiscal 2025	2,008,159
For Fiscal 2026	2,098,837
For Fiscal 2026	2,185,292

Section 4 – Plan Participants

Dorchester County Government provided employee data as of the valuation date. An audit of the data was not made. The following table summarizes the census data used in the calculations.

Number of Participants as of June 30, 2007	
Actives at Full Attribution Age	4
Actives Not Yet at Full Attribution Age	290
Retirees	57
Dependents	<u>27</u>
Total	378

Section 5 – Health Care Claims Development

Dorchester County provides medical and prescription drug coverage to pre-65 and post-65 retirees and their eligible dependents. The pre-65 retiree group can select from the following Mamsi/UHC fully insured plans:

1. HMO Plan; \$5 / \$10 / \$25 Prescription Drug Copays
2. HMO Plan; \$10 / \$20 / \$35 Prescription Drug Copays
3. POS Plan; \$5 / \$10 / \$25 Prescription Drug Copays
4. POS Plan; \$10 / \$20 / \$35 Prescription Drug Copays
5. PPO Plan; \$5 / \$10 / \$25 Prescription Drug Copays
6. PPO Plan; \$10 / \$20 / \$35 Prescription Drug Copays

Pre-65 retiree group participants must pay the entire cost difference between the high prescription drug copay plan and the low prescription drug copay plan for every plan.

Coverage for the post-65 retiree group includes a fully insured Medicare Supplemental Plan J policy for medical coverage, and a self-insured prescription drug plan.

Starting per capita costs for the pre-65 and post-65 retiree groups were determined independently. The starting costs for the fully insured coverages are based on the premiums charged to Dorchester County. Manual rates were used for the self-insured post-65 retiree prescription drug plan.

Pre-65 retirees are charged the same premium rates as actives for all plan options. According to GASB Statements 43 and 45 ("GASB 43/45"), when an employer provides benefits to both active employees and retirees through the same plan, the benefits to retirees should be segregated and measured independently for actuarial measurement purposes. The projection of future retiree benefits should be based on claims costs, or age-adjusted premiums approximating claims costs, for retirees, in accordance with actuarial standards issued by the Actuarial Standards Board. The resulting "implicit rate subsidy", as defined in GASB 43/45, is the difference between the calculated claims cost and the cost upon which retiree contributions are determined (in this case, the premium rates for the active group). As such, retiree premiums were estimated for the pre-65 retiree group as if they were rated on a stand-alone basis. The estimated premiums were then disaggregated into age-specific starting costs based on average ages and assumptions on the relationships of health care costs and increasing age. Separate claim cost curves were developed for retirees and their spouses. This is dictated by the differentials between the Mamsi/UHC premiums charged for retirees and spouses.

Starting per capita costs for the post-65 Medicare Supplemental Plan J coverage are based on the premiums charged. No adjustments were made to the premiums. Different premiums are charged for those aged 65-67 and those aged 68 and subsequent. The starting costs reflect this structure. The premiums were disaggregated into age-specific starting costs based on average ages and assumptions on the relationships of health care costs and increasing age. The same claim cost curve was used for retirees and their spouses since the premium is the same for both.

Starting costs for the post-65 retiree prescription drug coverage is based on the RSM McGladrey proprietary pricing model. The model calculates expected costs for the benefits being provided. It incorporates the impact of the age-sex distribution of the covered group, geography, industry, and anticipated provider discounts. The result is an expected, composite per capita cost. This composite is then disaggregated into an age-specific starting cost curve based on the average age of the group and assumptions for the relationships of costs and increasing age. An administrative cost of 3.0% of the expected cost of coverage is included.

Section 6 – Summary of Plan Provisions

This summary of plan provisions, as of the measurement date, has been prepared for valuation purposes only. It outlines the major plan provisions used to determine the Actuarial Accrued Liability.

Postretirement Health Plan	
Provider:	Dorchester County Government provides medical coverage and prescription drug coverage on a fully-insured basis for pre-65 retirees. Post-65 retirees received medical coverage on a fully insured basis under a Medicare Supplemental Plan J policy, and prescription drug coverage on a self-insured basis.
Eligibility and Coverage:	<p>Employees who have 30 years of service, or who have attained age 55 and have 16 years of service, and retire from active employment are eligible to receive benefits from this Plan. Benefits continue for the lifetime of the retiree.</p> <p>The spouse of an eligible retiree is also eligible to receive benefits from this Plan. Benefits continue for the lifetime of the retiree.</p> <p>Surviving spouses must pay 100% of the premium to continue coverage.</p>
HMO Plan – Pre-65 Retirees Only	
Deductible	None
Coinsurance	100%
Co-payments	
- PCP Office Visit	\$20 (then 100%)
- Specialist Office Visit	\$30 (then 100%)
- Urgent Care Facility Visits	\$35 (then 100%)
- Outpatient Hospital Visits	\$30 (then 100%)
- Outpatient Surgery Visits	\$50 (then 100%)
- Emergency Room Visits	\$75 (then 100%)
Out-of-Pocket Maximum (Single / Family)	\$1,100 / \$3,600

Section 6 – Summary of Plan Provisions (continued)

Postretirement Health Plan		
POS Plan – Pre-65 Retirees Only		
	<u>In-Network</u>	<u>Out-of-Network</u>
Deductible (Single / Family)	None	\$300 / \$600
Coinsurance	100%	80%
Co-payments		
- PCP Office Visit	\$20 (then 100%)	None (80%)
- Specialist Office Visit	\$30 (then 100%)	None (80%)
- Urgent Care Facility Visits	\$35 (then 100%)	None (80%)
- Outpatient Hospital Visits	\$30 (then 100%)	None (80%)
- Outpatient Surgery Visits	\$50 (then 100%)	None (80%)
- Emergency Room Visits	\$75 (then 100%)	None (100%)
Out-of-Pocket Maximum (Single / Family)	\$1,400 / \$4,300	
PPO Plan – Pre-65 Retirees Only		
	<u>In-Network</u>	<u>Out-of-Network</u>
Deductible (Single / Family)	None	\$500 / \$1,000
Coinsurance		
- Inpatient Hospital	90%	75%
- Other Services	100%	75%
Co-payments		
- Office Visit	\$20 (then 100%)	None (75%)
- Urgent Care Facility Visits	\$20 (then 100%)	None (75%)
- Outpatient Hospital Visits	None (100%)	None (75%)
- Outpatient Surgery Visits	\$20 (then 100%)	None (75%)
- Emergency Room Visits	\$50 (then 100%)	\$50 (then 100%)
Out-of-Pocket Maximum (Single / Family)	\$2,500 / \$5,000	

Section 6 – Summary of Plan Provisions (continued)

Postretirement Health Plan		
Prescription Drug Benefit		
<u>Low Co-payment Option</u>		
100% reimbursement after the following co-pays:		
	<u>Retail</u>	<u>Mail Order</u>
Generic	\$5	\$5
Formulary Brand	\$10	\$10
Non-Formulary Brand	\$25	\$25
<u>High Co-payment Option</u>		
100% reimbursement after the following co-pays:		
	<u>Retail</u>	<u>Mail Order</u>
Generic	\$10	\$10
Formulary Brand	\$20	\$20
Non-Formulary Brand	\$35	\$35
Note: Prescription Drugs paid at 80% without a co-payment requirement for PPO Plan out-of-network.		

Section 6 – Summary of Plan Provisions (continued)

Postretirement Health Plan			
Medicare Supplemental Plan J - Post-65 Retirees Only			
<u>Inpatient Hospital R&B</u>			
First 60 Days		100% of Medicare Part A Deductible	
Next 30 Days		100% of Medicare per day Coinsurance	
60 Additional Lifetime Reserve Days		100% of Medicare per day Coinsurance	
Additional Days		80% of the Allowed Benefit	
<u>Skilled Nursing Facility</u>			
First 20 Days		Not Applicable	
Next 80 Days		100% of Medicare per day Coinsurance	
Additional Days		Not Covered	
Procedures covered at 100% of the Medicare Deductible and Coinsurance Amounts:			
		Anesthesia, Chemotherapy, Surgical, Inpatient Medical, Home Care, Mammography Screening	
Procedures covered at 80% of the Medicare Deductible and Coinsurance Amounts:			
		Office Visits, Ambulance, DME, Physical Therapy, Diagnostic Services	
Annual Physicals		100% of the allowed benefit; \$100 maximum per exam	
Monthly Retiree Contributions:	The 2007/2008 plan year rates are listed below:		
	<u>Plan</u>	<u>Pre-65 Retiree</u>	<u>Spouse</u>
\$5/\$10/\$25 Prescription Drug Copay Option	HMO	\$74.51	\$71.06
	POS	\$102.05	\$97.31
	PPO	\$189.54	\$180.82
	<u>Plan</u>	<u>Pre-65 Retiree</u>	<u>Spouse</u>
\$10/\$20/\$35 Prescription Drug Copay Option	HMO	\$55.88	\$53.30
	POS	\$83.43	\$79.53
	PPO	\$165.44	\$157.82
Medicare Supplemental Plan J and Self-insured Prescription Drugs		Post-65 retirees and spouses contribute approximately 15% of the insured medical premiums and self-insured prescription drug expected costs.	
Changes since last valuation:	N/A.		

Section 7 – Actuarial Basis

The tables in this Section summarize the actuarial assumptions and cost methods used to determine plan liabilities and postretirement medical cost.

Actuarial Standards of Practice No. 35 (ASOP 35) requires that each assumption used shall reflect the best estimate solely with respect to that assumption. The statement requires the use of assumptions that represent the best estimate of future experience under the plan and reasonably relate to the expected experience of the plan. The assumed discount rate shall reflect the rates at which the benefits could be effectively settled. We believe that the current actuarial basis meets this requirement. We will monitor the actuarial experience under the plan in future years in order to justify the appropriateness of these assumptions.

Table 7.1 – Actuarial Methods

Summary of Methods	
Valuation Date:	July 1, 2007.
Data Collection Date:	July 1, 2007.
Actuarial Cost Method:	Projected Unit Credit - Under this cost method, the costs attributable to past service and the current year's service are determined by prorating over all years of service the benefits expected to be paid from the plan. The normal cost for any year is determined equal to the present value of the current year's portion of the employee's expected postretirement medical benefit. The current year's portion is equal to the expected postretirement medical benefit divided by the total credited service at the anticipated retirement date. The accrued liability is determined equal to the present value of the past year's portion of the employee's expected postretirement medical benefit. The past year's portion is equal to the expected postretirement medical benefit times the ratio of the participant's credited service to the total credited service at the anticipated retirement date. The sum of these values for all employees determines the normal cost and the accrued liability for the plan.
Amortization of the UAAL:	Closed, level percentage of compensation over maximum allowable period of 30 years.
Changes since Last Valuation:	N/A.

Table 7.2 – Actuarial Assumptions

Actuarial Assumptions				
Discount Rate:	4.50% per year.			
Salary increases:	4.50% per year.			
Health Care Trend Rates:	For Gross Per Capita Costs			
	<u>HMO and POS</u>	<u>PPO</u>	<u>MCare PI J</u>	<u>Rx</u>
	<u>Year</u>	<u>Pre-65</u>	<u>Pre-65</u>	<u>Post-65</u>
	7/1/2007	10.50%	11.25%	8.00%
	7/1/2008	9.71%	10.36%	7.57%
	7/1/2009	8.93%	9.46%	7.14%
	7/1/2010	8.14%	8.57%	6.71%
	7/1/2011	7.36%	7.68%	6.29%
	7/1/2012	6.57%	6.79%	5.86%
	7/1/2013	5.79%	5.89%	5.43%
	7/1/2014+	5.00%	5.00%	5.00%
Retiree Contribution Trend Rate:	The retiree contribution trend rate is the same as the health care cost trend rate (HMO and POS pre-65 and Rx post-65).			
Mortality Table:	RP-2000 Combined Mortality Table for Males and Females.			
Withdrawal Rates:	Select rates, from Table T-1 of the Actuary's Pension Handbook are listed below:			
	<u>Attained Age</u>	<u>Withdrawal Rates</u>		
	25	9.75%		
	30	9.40%		
	35	8.84%		
	40	7.95%		
	45	6.71%		
	50	4.87%		
	55	2.59%		
Retirement Rates:	75% at 30 years of service, otherwise the rates are based on the following table:			
	<u>Age</u>	<u>Retirement Rates</u>		
	55 to 59	10%		
	60 to 61	5%		
	62	50%		
	63 to 64	25%		
	65 and over	100%		
Lapse Rate:	Retirees and their spouses are assumed to have a 0% lapse rate.			

Table 7.2 – Actuarial Assumptions (continued)

Actuarial Assumptions (continued)							
Participation:	90% of all active participants are assumed to continue coverage upon retirement.						
Plan Selection:	Active participants are assumed to elect the same plan option upon retirement that they currently have. Retirees are assumed to continue with their current plan option.						
Pre-65 2007 Annual Per Capita Claims:	<u>Age</u>	<u>HMO Plan (Retiree)</u>	<u>HMO Plan (Spouse)</u>	<u>POS Plan (Retiree)</u>	<u>POS Plan (Spouse)</u>	<u>PPO Plan (Retiree)</u>	<u>PPO Plan (Spouse)</u>
\$5/\$10/\$25	45	\$4,863	\$4,613	\$5,126	\$4,889	\$6,197	\$5,911
Prescription Drug Copayment Option	50	5,776	5,479	6,088	5,806	7,360	7,020
	55	6,860	6,507	7,230	6,896	8,741	8,338
	60	8,147	7,729	8,587	8,190	10,382	9,903
	64	9,349	8,869	9,854	9,398	11,913	11,364
	<u>Age</u>	<u>HMO Plan (Retiree)</u>	<u>HMO Plan (Spouse)</u>	<u>POS Plan (Retiree)</u>	<u>POS Plan (Spouse)</u>	<u>PPO Plan (Retiree)</u>	<u>PPO Plan (Spouse)</u>
\$10/\$20/\$35	45	\$4,632	\$4,393	\$4,898	\$4,671	\$5,902	\$5,629
Prescription Drug Copayment Option	50	5,501	5,218	5,817	5,548	7,009	6,686
	55	6,533	6,197	6,909	6,589	8,325	7,941
	60	7,759	7,361	8,205	7,826	9,887	9,431
	64	8,904	8,446	9,416	8,980	11,346	10,823
Post-65 2007 Annual Per Capita Claims:	<u>Age</u>	<u>MCare PI J</u>			<u>Rx</u>		
	65	\$1,611			\$1,710		
	70	2,245			1,973		
	75	2,245			2,221		
	80	2,245			2,453		
Full Attribution Age:	Age at which retirement rate is 100% (Age 65).						
Medicare Eligibility:	All participants are assumed to be eligible for Medicare upon attainment of age 65.						
Retirement Marriage Assumption:	44% are assumed to be married with husbands three years older than wives. Actual marital status used for current retirees.						
Changes since Last Valuation:	N/A.						

Section 8 – Overview of Government Accounting Standards Board (GASB) Statement No. 45

Statement No. 45

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."

All public sector plans with Postemployment benefits will be required to report the cost on their balance sheets. The effective date for implementation is based on the annual revenues of the largest participating employer, as follows:

<u>Revenues</u>	<u>Effective Date*</u>
\$100 million and above	December 15, 2006
\$10 million to \$100 million	December 15, 2007
Less than \$10 million	December 15, 2008

* Plans would be required to implement for fiscal years beginning after the effective date. GASB encourages earlier implementation.

Public sector plans are required under GASB Statement No. 45 to recognize costs, for reporting on the financial statements, on an accrual basis (similar to public sector pension plans). Some of the key reporting elements are as follows:

Annual Required Contribution – Represents the annual cost of providing OPEB benefits and is equal to the cost of benefits expected to be accrued during the fiscal year, plus an amortization of unfunded liability.

Net OPEB Obligation – Represents a liability accrued to date in the plan. Each year the Net OPEB Obligation will be increased by the Annual Required Contribution, and decreased by employer contributions (or net benefit payments in the case of an unfunded plan).

Required Supplementary Information – Includes historical information about plan assumptions, as well as a three year schedule of unfunded liability.

Selection of the asset return assumption under GASB Statement No. 45 should include input from the plan sponsor, the actuary, and the external plan auditor. Paragraph 13 requires that the rate reflect a long-term expected investment yield for assets expected to be used to pay benefit payments. For an unfunded plan, this would be the assets of the employer.