RSM McGladrey

GASB 45 July 1, 2006 Liability Information and 2006 Annual Required Contribution Estimates

Dorchester County Government Postretirement Health Insurance Plan

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Actuarial Certification

This report contains calculations for the estimated July 1, 2006 liability measurement and the estimated fiscal 2006 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, 2006. This information was reviewed for reasonability but we cannot attest to the accuracy of this information.

Actuarial computations under are for purposes of fulfilling employer financial accounting requirements. These calculations have been made on a basis consistent with our preliminary understanding of Statement of Government Accounting Standard No. 45. The Statements do 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 your 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

Stacey B. Levine — June 6, 2006

Stacey B. Levine, FSA, EA
Director of Actuarial Operations

Date

John A. Ritchie — June 6, 2006

John Ritchie, ASA, MAAA, FCA
Consulting Actuary

Date

June 2006

Executive Summary

	July 1, 2006
Actuarial Accrued Liability (AAL)	
Actives fully eligible to retire	$ 4,151,878
Actives not yet fully eligible to retire	10,259,393
Retirees and dependents	5,944,566
Total	$ 20,355,837
Annual Required Contribution (ARC)	$ 2,203,464
Assumed Contributions (based on "Pay As You Go" Funding)	$ 421,899
Net OPEB Obligation (NOO)	$ 0
Participant Information	
Actives fully eligible to retire	24
Actives not yet fully eligible to retire	218
Retirees and dependents	76
Total	318

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 estimates only, as of July 1, 2006. Upon implementation, a final report should be generated and further calculations will need to be provided at that time.

Section 1 – Actuarial Accrued Liability and Normal Cost

July 1, 2006	Total
Actuarial Accrued Liability (AAL)	
Actives	
Members	$ 10,599,268
Spouses	3,812,003
Total	$ 14,411,271
Inactives	
Retirees	$ 4,366,353
Spouses	1,578,213
Total	$ 5,944,566
Grand Total	$ 20,355,837
Normal Cost	$ 959,637

Table 1.1 – Age / Service Breakout of Actuarial Accrued Liability (AAL)

The chart below details the **average** actuarial accrued liability (AAL) per active participant along with the number of active participants for each age & service grouping.

	Years of Service								
Age	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 – 34	35 +	Total
20 - 29	21	6							27
AAL	1,813	9,852							3,600
30 - 39	15	22	7	3					47
AAL	4,319	17,910	33,736	65,871					18,991
40 - 49	24	15	12	13	6	3	1		74
AAL	9,825	43,207	58,539	85,869	140,758	244,219	325,127		62,230
50 - 54	16	5	3	4	6	5	3		42
AAL	12,413	47,517	104,333	143,888	164,010	186,170	271,980		96,562
55 - 59	7	5	5	2	1	3		2	25
AAL	14,584	49,548	95,702	156,148	173,460	189,896		193,727	90,849
60 - 64	5	2	5	4	2	2		2	22
AAL	7,871	39,348	80,489	137,919	130,772	150,032		156,058	88,450
65 - 69				3				1	4
AAL				108,121				132,748	114,277
70 – 74					1				1
AAL					86,676				86,676
Total Count	88	55	32	29	16	13	4	5	242
Total AAL	7,713	30,278	66,643	106,131	146,893	194,866	285,267	166,464	59,551

Section 2 – Annual Required Contribution for 2006

The following table summarizes the development of the Annual Required Contribution for 2006.

Annual Required Contribution Under GASB No. 45	
	Total
Funding interest rate	4.50%
(1) Normal Cost (cost of fiscal year benefit accruals)	$ 959,637
(2) Actuarial Accrued Liability (AAL)	20,355,837
(3) Market Value of Assets	0
(4) Unfunded Actuarial Accrued Liability (UAL): (2) - (3)	20,355,837
(5) 30-Year Amortization of the UAAL	1,195,862
(6) Interest Adjustment	47,965
(7) Annual Required Contribution (ARC): (1) + (5) + (6)	$ 2,203,464

Section 3 – Determination of Net OPEB Obligation

Determination of the Net OPEB Obligation	
(1) Annual Required Contribution	$ 2,203,464
(2) Interest on Net OPEB Obligation (NOO)	0
(3) Adjustment to Annual Required Contribution	0
(4) Annual OPEB Cost (Expense): (1) + (2) + (3)	$ 2,203,464
(5) Assumed Contributions	421,899
(6) Increase in Net OPEB Obligation (NOO): (4) - (5)	$ 1,781,565
(7) Net OPEB Obligation (NOO) at beginning of year	$ 0
(8) Estimated Net OPEB Obligation (NOO) at end of year: (6) + (7)	$ 1,781,565

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 4 – Plan Participants

Dorchester County Government provided employee data as of the valuation date. We did not perform an audit of the data. The following table summarizes the census data used in the 2006 calculations.

Number of Participants as of June 30, 2006	
	Total
Actives Fully Eligible to Retire	24
Actives Not Yet Fully Eligible to Retire	218
Retirees and Dependants	76
Total	318

Section 5 – Health Care Claims Development

The Dorchester County retiree medical plan is a fully insured arrangement. Six separate plan options are offered to retiree plan participants, as shown below:

1) HMO Plan with $5 / $10 / $25 Prescription Drug Copayments
2) HMO Plan with $10 / $20 / $35 Prescription Drug Copayments
3) POS Plan with $5 / $10 / $25 Prescription Drug Copayments
4) POS Plan with $10 / $20 / $35 Prescription Drug Copayments
5) PPO Plan with $5 / $10 / $25 Prescription Drug Copayments
6) PPO Plan with $10 / $20 / $35 Prescription Drug Copayments

Fiscal year 2006 and 2007 premium rates, summaries of each plans' provisions, and enrollment for each option were provided. This information along with the RSM McGladrey proprietary pricing model were used to develop starting per capita claim costs for the period July 1, 2006 to June 30, 2007. Starting per capita costs were calculated independently for the pre-65 and post-65 retiree groups. In addition, separate claim cost curves were developed for each retiree medical plan option.

Retirees under age 65 and retirees 65 and over are entitled to the same benefit options and are subject to the same premium schedule as those receiving coverage under the active plan. 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.

Given the blended nature of the premium rates, it was not possible to estimate the premium rate level for the retiree groups given the premium charges by the insurance carrier. As an alternative, starting per capita costs for each option available to both the pre-65 and post 65 retiree medical and prescription drug coverages were determined using our 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. A retention of 20% of the expected cost of coverage was included.

Given the information provided, retirees pay the full premium amount of dental coverage. As such, it was assumed that Dorchester County has no liability for dental coverage.

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 postretirement benefit cost.

Postretirement Health Plan	
Provider:	Dorchester County Government provides medical coverage and prescription drug coverage on a fully-insured basis.
Eligibility and Coverage:	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. The spouse of an eligible retiree is also eligible to receive benefits from this Plan. Benefits continue for the lifetime of the retiree. Surviving spouses must pay 100% of the premium to continue coverage.
HMO Plan	
Deductible	None
Coinsurance	100%
Copayments	
- 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

	In-Network	Out-of-Network
Deductible (Single / Family)	None	$300 / $600
Coinsurance	100%	80%
Copayments		
- 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

	In-Network	Out-of-Network
Deductible (Single / Family)	None	$500 / $1,000
Coinsurance		
- Inpatient Hospital	90%	75%
- Other Services	100%	75%
Copayments		
- 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

Low Copayment Option

100% reimbursement after the following copays:

	Retail	Mail Order
Generic	$5	$5
Formulary Brand	$10	$10
Non-Formulary Brand	$25	$25

High Copayment Option

100% reimbursement after the following copays:

	Retail	Mail Order
Generic	$10	$10
Formulary Brand	$20	$20
Non-Formulary Brand	$35	$35

Note: Prescription Drugs paid at 80% without a copayment requirement for PPO Plan out-of-network.

Section 6 – Summary of Plan Provisions (continued)

Postretirement Health Plan

Post-65 Medical Benefits:

Inpatient Hospital R&B

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

Skilled Nursing Facility

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

Coordination with Medicare: Carve-out. The total eligible charges payable under the Plan are reduced by the actual amounts paid by Medicare.

Monthly Retiree Contributions: The 2006/2007 plan year rates are listed below, and are the same for Pre-65 and Post-65 coverage:

	Plan	Retiree	Spouse
$5/$10/$25 Prescription Drug Copay Option	HMO	$73.48	$70.08
	POS	$100.64	$95.96
	PPO	$186.93	$178.32

	Plan	Retiree	Spouse
$10/$20/$35 Prescription Drug Copay Option	HMO	$55.11	$52.56
	POS	$82.28	$78.43
	PPO	$163.16	$155.64

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 pension cost.

The assumptions and methods have been reviewed since the prior year's valuation and appropriate changes were made.

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 pension 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, 2006.
Data Collection Date:	June 30, 2006
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 pension benefit. The current year's portion is equal to the expected pension 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 pension benefit. The past year's portion is equal to the expected pension 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.
Changes since last valuation:	N/A.

Table 7.2 – Actuarial Assumptions

Actuarial Assumptions			
Discount Rate:	4.50% per year.		
Salary increases:	N/A		
Health Care Trend Rate:		For Gross Per Capita Costs	
	Year	Pre-65	Post-65
	2006	12.00%	14.00%
	2007	11.13%	12.88%
	2008	10.25%	11.75%
	2009	9.38%	10.63%
	2010	8.50%	9.50%
	2011	7.62%	8.38%
	2012	6.75%	7.25%
	2013	5.88%	6.13%
	2014+	5.00%	5.00%
Retiree Contribution Trend Rate:	The retiree contribution trend rate is the same as the health care cost trend rate.		
Mortality Table:	RP-2000 Combined Healthy Mortality Table for Males and Females.		
Withdrawal:	Select rates, from Table T-1 of the Actuary's Pension Handbook are listed below:		
	Attained Age	Withdrawal Rates	
	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:		
	Age	Retirement Rates	
	55 to 59	10%	
	60 to 61	5%	
	62	50%	
	63 to 64	25%	
	65 and over	100%	

Table 7.2 – Actuarial Assumptions (continued)

Actuarial Assumptions				
Participation Rate:	90% of all active participants are assumed to continue coverage upon retirement.			
Lapse Rate:	Retirees and their spouses are assumed to have a 0% lapse rate.			
Medicare Eligibility:	All participants are assumed to be eligible for Medicare upon attainment of age 65.			
Dependant Assumptions:	44% are assumed to be married with husbands three years older than wives. Actual marital status used for current retirees.			
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.			
2006 Annual Per Capita Claims:	Age	HMO Plan	POS Plan	PPO Plan
$5/$10/$25	45	$5,547	$6,205	$7,016
Prescription Drug Copayment Option	50	6,276	7,020	7,938
	55	7,100	7,943	8,981
	60	8,033	8,752	10,162
	64	8,867	9,661	11,217
	65	3,513	3,765	3,810
	70	3,974	4,260	4,311
	75	4,496	4,819	4,877
	80	5,087	5,453	5,518
	Age	HMO Plan	POS Plan	PPO Plan
$10/$20/$35	45	$5,894	$6,043	$6,827
Prescription Drug Copayment Option	50	6,668	6,837	7,724
	55	7,545	7,736	8,739
	60	8,536	8,752	9,887
	64	9,422	9,661	10,914
	65	3,182	3,504	3,697
	70	3,600	3,964	4,183
	75	4,073	4,485	4,733
	80	4,608	5,074	5,355
2006 Medicare Part D Subsidy:	Current legislation does allow incorporating the Medicare Part D subsidy in the valuation.			
Changes since last valuation:	N/A.			

Section 8 – Overview of Government Accounting Standards Board (GASB) Statement Nos. 45 and 43

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:

Revenues	Effective Date*
$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:

> <u>Annual Required Contribution</u> – 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.
>
> <u>Net OPEB Obligation</u> – 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).
>
> <u>Required Supplementary Information</u> – 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 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.

Statement No. 43

The Governmental Accounting Standards Board (GASB) has issued Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans."

All public sector plans with Postemployment benefits that are pre-funded or administered through a separate trust 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:

Revenues	Effective Date*
$100 million and above	December 15, 2005
$10 million to $100 million	December 15, 2006
Less than $10 million	December 15, 2007

* Plans would be required to implement for fiscal years beginning after the effective date. GASB encourages earlier implementation. Note that for pre-funded benefits, implementation of GASB Statement No. 43 is required earlier than Statement No. 45 due to the existence of a plan.

Public sector plans with benefits that are pre-funded are required under GASB Statement No. 43 to report some additional items on the financial statements, in additional to the requirements of GASB Statement No. 45. A statement of plan net assets and changes in net assets would be required. In addition a 3 year schedule of funding progress and employer contributions would be required.

For a plan that is funded or partially funded by a dedicated trust, the investment return assumption required under GASB Statement No. 45 would be a mix of the plan's expected long-term yield on assets, and the employer's expected long-term yield on general assets. For a plan that is fully funded, the yield mix would be 100% plan assets, and 0% employer assets.

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