THE REPORT OF THE ACTUARIAL VALUATION AS OF DECEMBER 31, 2005

OF THE

CITY OF YPSILANTI OTHER POSTEMPLOYMENT BENEFITS

GRS

Gabriel Roeder Smith & Company

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GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
One Towne Square
Suite 800
Southfield, MI 48076-3723
248.799.9000 phone
248.799.9020 fax
www.gabrielroeder.com

October 27, 2006

Ms. Sallea Tisch
Accounting Supervisor
City of Ypsilanti Retiree Health Care Plan
City Hall
1 South Huron Street
Ypsilanti, Michigan 48197

Dear Ms. Tisch:

Submitted in this report are the results of an Actuarial Valuation of the benefit values associated with the employer financed retiree health care and life insurance benefits provided by the City of Ypsilanti. The date of the valuation was December 31, 2005, effective for the fiscal year July 1, 2006 through June 30, 2007. This report was prepared at the request of the City of Ypsilanti.

The actuarial calculations were prepared for purposes of complying with the requirements of Statements No. 43 and No. 45 of the Governmental Accounting Standards Board (GASB). 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 the City's financial reporting requirements may produce significantly different results. This report may be provided to parties other than the City of Ypsilanti only in its entirety and only with the permission of the City of Ypsilanti.

The valuation was based upon information, furnished by the City, concerning retiree health care benefits, individual members, and financial data. Data was checked for internal consistency but was not otherwise audited.

To the best of our knowledge, this report is complete and accurate and was made in accordance with generally recognized actuarial methods.

Both of the undersigned are members of the American Academy of Actuaries and together meet the Qualification Standards of the Academy of Actuaries to render the actuarial opinion herein.

Respectfully submitted,

David T. Kausch

David T. Kausch, FSA, EA, MAAA

Hu Zhi

Hu Zhi, FSA, MAAA

DK/HZ:kg

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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Annual Required Contribution

This report presents the annual required contribution calculated in compliance with the accounting requirements of Governmental Accounting Standards Board (GASB) Statements No. 43 and No. 45. Based on the information provided by the employer, implementation of GASB Statement No. 43 will begin with the fiscal year beginning July 1, 2007, and implementation of GASB Statement No. 45 will begin with the fiscal year beginning July 1, 2008. Statement No. 43 applies to the plan itself, and Statement No. 45 applies to the employer sponsoring the plan.

The Annual Required Contribution (ARC) for the fiscal year beginning July 1, 2006 is estimated to be $1,625,306 for the MERS group and $1,103,449 for the Police and Fire group. In the first year GASB Statement No. 45 is adopted, the annual OPEB cost required to be disclosed on the employer's financial statements is equal to the ARC. Actual claims and premiums paid on behalf of retirees including the implicit subsidy may be treated as employer contributions in relation to the ARC and act to reduce the Net OPEB Obligation (NOO).). The expected employer portion of the claims and premium amounts paid is estimated to be $891,653 for the fiscal year beginning July 1, 2006.

For additional details, please see Section B of the report.

Additional OPEB Reporting Requirements

In addition to the annual OPEB cost described above, employers will have to disclose a Net OPEB Obligation (or asset). The Net OPEB Obligation is the cumulative difference between annual OPEB costs and annual employer contributions in relation to the ARC, accumulated from the implementation of GASB Statement No. 45. The Net OPEB Obligation is zero as of the beginning of the fiscal year that GASB 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 GASB Statement No. 45. Additional information required to be disclosed in the employer's financial statements is detailed in paragraphs 24 through 27 of GASB Statement No. 45.

EXECUTIVE SUMMARY

Liabilities and Assets

The present value of all benefits expected to be paid to current plan members as of December 31, 2005 is $7,312,813 for the MERS group and $16,160,043 for the Police and Fire group. The actuarial accrued liability, which is the portion of the above amounts attributable to service accrued by plan members as of December 31, 2005, is $6,123,383 for the MERS group and $14,211,901 for the Police and Fire group. The assets currently set aside for GASB OPEB purposes as of December 31, 2005 are $0.

SECTION 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. 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 when they terminate employment at a future date.

The rising cost of health care has been a cause of concern to both individuals and employers who sponsor healthcare plans. The accounting community became concerned that many sponsors of public plans were accounting for the cost of their OPEB plans solely on the basis of benefits paid and that this method did not accurately reflect the ultimate cost of benefits promised to current and former employees. In 1988, the Governmental Accounting Standards Board (GASB) began working on a project to develop comprehensive standards for financial reporting of OPEB plans.

The GASB determined that an OPEB plan was similar to a pension plan in that benefits are earned during an active employee's working lifetime but paid out at a future date. In the GASB's view, accounting for OPEB should follow the same basic principle as accounting for public plan pension costs. These benefits are compensation for employees' services and should be accounted for during the period of time that services are performed.

The GASB worked on comprehensive standards for OPEB accounting for more than a decade, culminating with the release of GASB Statements No. 43 and No. 45 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. The effective dates of the Statements are based on the implementation of GASB Statement No. 34, based on the sponsor's annual revenue for the first fiscal year ending on or after June 15, 1999, and follow the schedule below:

Total Annual Revenue in the First Fiscal Year Ending After June 15, 1999	**GASB No. 43 OPEB Standards for the Plan's Financial Statements will be Effective for Periods Beginning After**	**GASB No. 45 OPEB Standards for the Employer's Financial Statements will be Effective for Periods Beginning After**
Phase 1 Govts. - $100 million or more	December 15, 2005	December 15, 2006
Phase 2 Govts. - $10 million or more, but less than $100 million	December 15, 2006	December 15, 2007
Phase 3 Govts. – Less than $10 million	December 15, 2007	December 15, 2008

GASB STANDARDS

Unlike pension plans, OPEB plans often do not have a formal document detailing the specific terms of the plan. Under GASB Statements No. 43 and No. 45 the benefits to be accounted for are those provided by the *substantive plan* – loosely defined as the benefits covered by the plan as understood by the employer and plan members at the time of each actuarial valuation. The substantive plan provisions used in this valuation are summarized in Section F.

GASB also requires that the calculations assume the terms of the substantive plan continue indefinitely. It has been argued that there is a likelihood future OPEB plan provisions would be different than the current substantive plan (due to rising healthcare costs or social changes) and therefore liabilities based on the current substantive plan may overstate what will actually occur. However, the GASB Statement is designed to measure liabilities for the plan as it currently exists. While it may be reasonable to assume future changes in the OPEB plan for other purposes, recognition of anticipated changes is not allowed for purposes of accounting for OPEB.

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. In general terms, though, the plan sponsor is required to disclose an annual OPEB cost, the funded status of the plan and the funding progress on the valuation date.

Although GASB does not require OPEB contributions, it has chosen to call the base component of the annual OPEB cost the Annual Required Contribution, or ARC. The ARC consists of the cost of benefits accruing in a year plus an amount calculated to amortize any unfunded actuarial accrued liability over a period of not more than 30 years.

The funded status of the plan is a ratio of the plan's assets (if any) to the actuarial accrued liability on the valuation date. The plan is also required to disclose the cumulative difference between the ARC and the employer's actual contribution to the plan. This amount is known as the Net OPEB Obligation (NOO). Each year, the NOO accumulates with interest, plus the difference between the ARC and actual contributions for the year, plus some technical adjustments. **For most plans the NOO is set to zero as of the effective date of the GASB OPEB standard. It is the NOO, and not the actuarial accrued liability, that will be disclosed on the employers' Statement of Net Assets.**

OPEB SPECIFIC ASSUMPTIONS

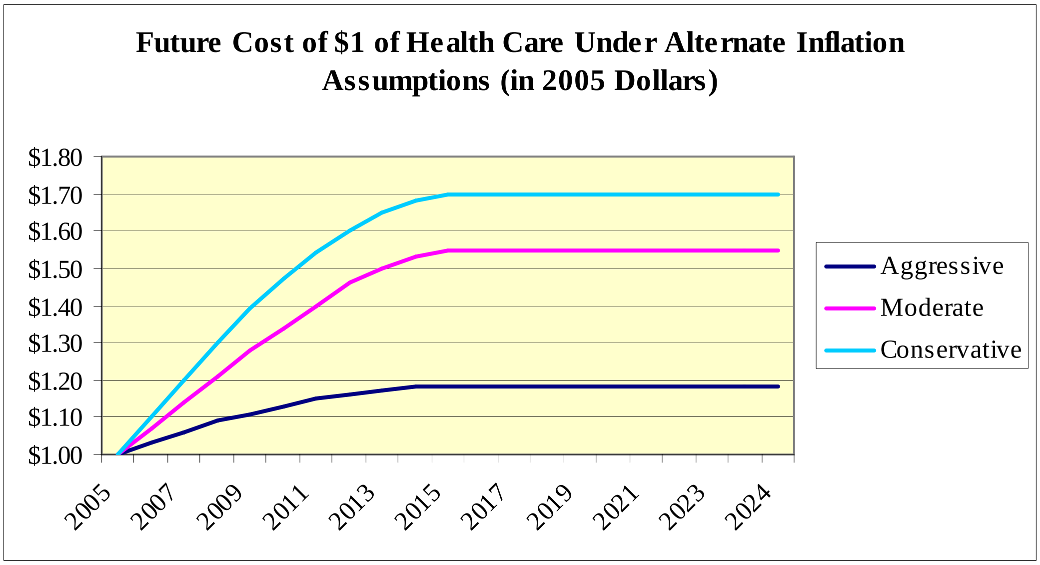
In any long-term actuarial valuation (such as for pensions and OPEB), certain demographic, economic and behavioral assumptions must be made concerning the population, investment discount rates, and the benefits provided. These actuarial assumptions form the basis for the actuarial model which is used to project the future population, benefits to be provided, and contributions to be collected. The investment return rate assumption is used to discount the future benefits to a present value on the valuation date. While assumptions such as future rates of retirement and mortality are similar for both OPEB and pension plans, there are some additional assumptions required when projecting benefits for a healthcare plan.

The cost of providing medical services has been increasing more rapidly than prices in general for many years. During the period from 1955 to 2005 general inflation averaged 4.0%, while health expenditures increased by an average of about 10% per year. If this trend is projected to continue for years to come, it implies that years from now virtually all our expenditures will be for health care. The seemingly more reasonable alternative is that in the not too distant future medical expense inflation will stabilize at a level at or near general inflation. It is on this basis that we project that retiree health care costs will continue to exceed general inflation in the near term, but by less each year until leveling off at an ultimate rate that is similar to general price increases.

Health care increase rates used in this valuation lie within a range of reasonable assumptions, and are described on page G-10 of this report. The healthcare increase rate assumption has a major effect on the calculation of plan liabilities. To illustrate the effect of differing future medical inflation rates, the chart on the next page projects the growth of $1 of healthcare benefits under three sets of assumptions.

In this illustration, each set of assumptions trends smoothly to an assumed long term rate of inflation over the next ten years: The assumption set labeled “Conservative” begins at a rate of 10% in excess of general inflation, the “Moderate” assumption begins at a rate of 7% in excess of general inflation, while the “Aggressive” assumption begins at a rate of 3% in excess of general inflation.

OPEB SPECIFIC ASSUMPTIONS (CONCLUDED)



The chart above shows that the cost of providing health care is expected to increase over 50% in inflation-adjusted dollars over the next 20 years, using the "Moderate" healthcare increase assumption set. To put this in perspective, assuming health care increases are brought under control almost immediately, as in the "Aggressive" assumption set, implies future per capita healthcare costs will be expected to increase less than 20% over current levels. In addition to the per capita health care inflation, costs are expected to rise as the retiree population increases.

The selection of an investment return rate also has a major impact on the calculation of the reported GASB OPEB expense.

It is important to note that GASB Statements No. 43 and No. 45 require the selection of an interest rate assumption to be based on the expected long-term rate of return on the assets expected to pay the OPEB when due. GASB states that the return should be based on expected returns of:

- Plan assets – if the sponsor has been contributing the ARC on a regular basis;
- The employer's general assets – where no OPEB assets have been accumulated;
- A blend of plan and employer assets – in cases where OPEB assets exist but the plan is contributing amounts less than the ARC.

ACTUARIAL COST METHOD

GASB Statement No. 45 provides some flexibility to governmental employers (and their actuaries) in the use of various actuarial cost methods. It should be noted that an actuarial cost method determines a contribution or expense by assigning portions of the present value of projected benefits to various years with the general goal of accruing the cost of benefits over the working lifetime of the employees. The choice of a particular method does not change the ultimate cost of the promised benefits.

The entry age normal actuarial cost method has been used to calculate the GASB ARC for this valuation. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The entry age method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability. The amortization of the unfunded accrued liability was calculated as a level percent of payroll. For an open group, if experience is in accordance with the assumptions used, the ARC will increase at approximately the same rate as active member payroll, and the ARC as a percentage of payroll will remain basically level on a year to year basis. This is both an acceptable and reasonable cost method. The use of another actuarial cost method would produce different results.

OPEB PREFUNDING

Many employers fund retiree heath care benefits using the pay-as-you-go (or cash disbursement) method. The employer's annual contribution for these benefits is equal to the actual disbursements during the year for health care benefits for retired employees. This method of funding will result in increasing contributions over time. 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 increase.

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 annual amounts to a fund which will i) remain level as a percentage of active member payroll, and ii) when combined with present assets and future investment return will be sufficient to meet the financial obligations of the Plan to current and future retirees.

The ultimate determination as to the level of pre-funding will be the result of decisions made in an attempt to reconcile the often conflicting needs of benefit security for members and fiscal responsibility for the City. The GASB accounting standards noted in the previous section of the report can factor into decisions concerning the level of pre-funding.

SECTION B

VALUATION RESULTS

DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTION FOR THE OTHER POSTEMPLOYMENT BENEFITS AS OF DECEMBER 31, 2005

(ARC- 8.0%)

Contributions for	Development of the Annual Required Contribution for July 1, 2006 - June 30, 2007		
	MERS	**Police/Fire**	**Total**
Normal Cost			
Normal Retirement	$ 144,580	$ 279,908	$ 424,488
Termination Benefits	28,612	24,100	52,712
Death-in-Service	5,571	3,787	9,358
Disability	3,292	9,640	12,932
Life Insurance	760	689	1,449
Total Normal Cost	$ 182,815	$ 318,124	$ 500,939
Amortization of Unfunded Actuarial Accrued Liabilities (Amortized over 30 years)	$ 339,042	$ 785,325	$1,124,367
Annual Required Contribution (ARC)	**$ 521,857**	**$1,103,449**	**$1,625,306**
Projected Payroll for the Fiscal Year Beginning July 1, 2006	$2,532,053	$3,442,897	$5,974,950
Annual Required Contribution (ARC) as a Percentage of Projected Payroll	**20.61%**	**32.05%**	**27.20%**
ARC Per Active Participant	$ 8,998	$ 19,025	$ 14,011

The results on this page are calculated under the assumption that the employer funding policy is to contribute consistently an amount at least equal to the Annual Required Contribution (ARC). Therefore, under this policy the employer can assume a long-term investment return assumption. **The assumption used to calculate the liabilities shown above includes an 8.0% investment return rate.**

The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with GASB requirements.

DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTION
FOR THE OTHER POSTEMPLOYMENT BENEFITS
FISCAL YEAR BEGINNING JULY 1, 2006

(UAAL 8.0%)

	MERS	Police/Fire	Total
A. Present Value of Future Benefits			
1. Retirees and Beneficiaries	$3,460,903	$ 7,680,133	$ 11,141,036
2. Vested Terminated Members	0	876,050	876,050
3. Active Members	3,851,910	7,603,860	11,455,770
Total Present Value of Future Benefits	$7,312,813	$16,160,043	$ 23,472,856
B. Present Value of Future Employer Normal Costs	1,189,430	1,948,142	3,137,572
C. Present Value of Future Contributions from Current Active Members	0	0	0
D. Actuarial Accrued Liability (A.-B.-C.)	$6,123,383	$ 14,211,901	$ 20,335,284
E. Actuarial Value of Assets	0	0	0
F. Unfunded Actuarial Accrued Liability (D.-E.)	$6,123,383	$ 14,211,901	$ 20,335,284

The results on this page are calculated under the assumption that the employer funding policy is to contribute consistently an amount at least equal to the Annual Required Contribution (ARC). Therefore, under this policy the employer can assume a long-term investment return assumption. **The assumptions used to calculate the liabilities shown above includes an 8.0% investment return rate.**

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.

CITY OF YPSILANTI
DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
AS OF DECEMBER 31, 2005

(ARC- 4.5 %)

Contributions for	**Development of the Annual Required Contribution for July 1, 2006 - June 30, 2007**		
	MERS	**Police/Fire**	**Total**
Normal Cost			
Normal Retirement	$ 347,144	$ 741,944	$ 1,089,088
Termination Benefits	82,039	65,071	147,110
Death-in-Service	12,154	9,640	21,794
Disability	6,330	21,002	27,332
Life Insurance	1,519	2,410	3,929
Total Normal Cost	$ 449,186	$ 840,067	$ 1,289,253
Amortization of Unfunded Actuarial Accrued Liabilities (Amortized over 30 years)	$ 337,269	$ 822,164	$ 1,159,433
Annual Required Contribution (ARC)	**$ 786,455**	**$ 1,662,231**	**$ 2,448,686**
Projected Payroll for the Fiscal Year Beginning July 1, 2006	$ 2,532,053	$ 3,442,897	$ 5,974,950
Annual Required Contribution (ARC) as a Percentage of Projected Payroll	**31.06%**	**48.28%**	**40.98%**
ARC Per Active Participant	$ 13,560	$ 28,659	$ 21,109

The results on this page are calculated under the assumption that the employer funding policy is to contribute only the pay-as-you-go health care premium/claims contributions and have no plan assets. Therefore, under this policy the employer can assume a general fund earnings investment return assumption similar to that of the general fund earnings. **The assumptions used to calculate the liabilities shown above includes a 4.5% investment return rate.**

The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with GASB requirements.

CITY OF YPSILANTI
DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
AS OF DECEMBER 31, 2005

(UAAL 4.5%)

	MERS	Police/Fire	Total
A. Present Value of Future Benefits			
1. Retirees and Beneficiaries	$ 4,949,333	$11,209,125	$16,158,458
2. Vested Terminated Members	0	1,661,091	1,661,091
3. Active Members	8,594,861	17,303,066	25,897,927
Total Present Value of Future Benefits	$13,544,194	$30,173,282	$43,717,476
B. Present Value of Future Employer Normal Costs	3,729,764	6,163,430	9,893,194
C. Present Value of Future Contributions from Current Active Members	0	0	0
D. Actuarial Accrued Liability (A.-B.-C.)	$9,814,430	$24,009,852	$33,824,282
E. Actuarial Value of Assets	0	0	0
F. Unfunded Actuarial Accrued Liability (D.-E.)	$9,814,430	$24,009,852	$33,824,282

The results on this page are calculated under the assumption that the employer funding policy is to contribute only the pay-as-you-go health care premiums/claims contributions. Therefore, under this policy the employer can assume a general fund earnings investment return assumption similar to that of the general fund earnings. **The assumptions used to calculate the liabilities shown above include a 4.5% investment return rate.**

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 long-term rate of investment return on plan assets. Higher assumed investment returns will result in a lower Annual Required Contribution (ARC). Lower returns will result in a higher ARC. Based on information from the City, we have calculated the liability and the resulting ARC using an assumed investment return of 8.0% and 4.5%. If the City chooses to pre-fund with contributions less than the ARC, Governmental Accounting Standard Board (GASB) requires lowering the assumed investment return on assets to match expected return on the City's general assets. Lowering the assumed investment return would considerably increase the Net OPEB Obligation (NOO) that is disclosed on the employers' financial statement. Using as assumed rate of return of 4.5% on the City's general assets would result in an ARC of $2,448,686 for the fiscal year ending June 30, 2007.

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 biennially. An annual actuarial valuation will re-compute the required contribution rate each year. This will permit fluctuations and trends in experience to be reflected in the contribution rate on a regular basis.

COMMENT C: The contribution rates shown include amortization of the unfunded actuarial accrued liability over 30 years. This is the maximum time period permitted by the GASB Statement No. 45. A shorter amortization period would result in a higher ARC.

COMMENT D: It is our understanding that lump sums paid to retirees who decide to opt-out of health care plan are not considered OPEB under GASB Statement No. 45 and were not included in this valuation. The City may be required to account for these benefits under GASB Statement No. 26.

COMMENT E: City contributions for spouses are assumed to stay at their current levels. If these amounts increase over time, GASB Statement No. 45 may require anticipating future increases with a medical trend assumption.

SECTION C

SENSITIVITY ANALYSIS

POSTEMPLOYMENT HEALTH INSURANCE -- SENSITIVITY TESTS

Actuarial valuations deal with the cost of benefits to be paid in the future. The payments considered will range from one month in the future to decades from the valuation date (for a young, newly hired employee who may retire many years from now and live many years after that). In order to establish a present day cost for these future benefit obligations, the actuary bases the valuation on a number of assumptions about future occurrences. The occurrences that must be considered include employee turnover, pay increases, disablement, retirements, deaths and investment income on anticipated plan assets.

When the benefits being valued are health care benefits, a key factor is the future cost of the medical benefits being promised. This is projected using the current cost of the System's health care benefits and assumed future health care cost increases. The final cost of providing retiree health care benefits will depend upon how the charges for health care services actually increase in the future.

In order to demonstrate how the cost of these benefits can vary depending upon future health care cost increases, we have performed additional valuations based upon alternative health care cost increase assumptions. The schedule on page C-2 compares (i) the computed cost of the retiree health care benefits using the valuation assumptions to (ii) results of alternate valuations. One of the alternate valuations is based upon an optimistic health care cost increase assumption. The other is based upon a more pessimistic health care cost increase assumption. The schedule on page G-10 exhibits the health care cost increase assumptions used in each of the valuations.

SENSITIVITY ANALYSIS FOR THE FISCAL YEAR BEGINNING JULY 1, 2006

The selection of future health care cost increases is one of the key assumptions in determining plan liabilities. If the health care cost trend rates upon which the calculation of the Annual Required Contribution is based were changed to either the pessimistic or optimistic trends noted on page G-10, the annual contribution as a percentage of payroll for the combined groups (illustrated using the entry age 30-year amortization) would change as follows.

Contributions for	**Development of the Annual Required Contribution for July 1, 2006 - June 30, 2007**		
	Intermediate	**Pessimistic**	**Optimistic**
Normal Cost			
Normal Retirement	$ 424,488	$ 494,333	$ 360,111
Termination Benefits	52,712	61,310	44,965
Death in Service	9,358	11,657	8,254
Disability	12,932	14,562	11,392
Life Insurance	1,449	1,449	1,449
Total Normal Cost	$ 500,939	$ 583,311	$ 426,171
Amortization of Unfunded Actuarial Accrued Liabilities (Amortized over 30 years)	$ 1,124,367	$ 1,271,276	$ 979,088
Annual Required Contribution (ARC)	**$ 1,625,306**	**$ 1,854,587**	**$ 1,405,259**
Projected Payroll for the Fiscal Year Beginning July 1, 2006	$ 5,974,950	$ 5,974,950	$ 5,974,950
Annual Required Contribution (ARC) as a Percentage of Projected Payroll	**27.20%**	**31.04%**	**23.52%**
ARC Per Active Participant	$ 14,011	$ 15,988	$ 12,114

SECTION D

CASH FLOW PROJECTION

EMPLOYER FINANCED RETIREE HEALTH CARE PLAN
BENEFIT PROJECTION
INTERMEDIATE TREND RATES

The column titled “Health Care Benefits” is the amount that we estimate can be applied to the funding of retiree health insurance premiums in various years. At least in the first few years this amount will exceed the amount actually charged by your Health Care Provider for retirees because your Health Care Provider does not provide separate rates by age and sex. In our opinion the difference can be applied to the normal active member portion of your Health Care Provider charges. This matter should be reviewed by the auditor and possibly legal counsel if a trust is involved.

Year Ending June 30,	Health Care Benefits		
	MERS	Police/Fire	Total
2007	$280,629	$ 611,025	$ 891,654
2008	308,286	691,393	999,679
2009	340,556	754,121	1,094,677
2010	377,775	818,339	1,196,114
2011	414,780	883,983	1,298,763
2012	454,947	954,665	1,409,612
2013	498,740	1,024,241	1,522,980
2014	537,116	1,084,248	1,621,364
2015	565,959	1,146,739	1,712,698
2016	591,865	1,218,857	1,810,722
2017	602,043	1,294,146	1,896,189
2018	609,916	1,363,032	1,972,948
2019	633,898	1,438,627	2,072,525
2020	661,651	1,532,161	2,193,811
2021	689,144	1,624,093	2,313,237
2022	715,532	1,708,701	2,424,233
2023	738,792	1,803,297	2,542,088
2024	762,420	1,884,496	2,646,916
2025	789,276	1,936,088	2,725,364
2026	818,219	1,986,762	2,804,981

SECTION E

RETIREE PREMIUM RATE DEVELOPMENT

CITY OF YPSILANTI
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 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 actives and retirees to reflect this implicit rate subsidy for the retirees. For the post-65 retirees, the premium rate will be used as the basis of the initial per capita cost without adjustment since the rate reflects the actual claim experience of the post-65 retiree group.

Age graded and sex distinct premiums are utilized in 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.

CITY OF YPSILANTI
RETIREE PREMIUM RATE DEVELOPMENT (CONCLUDED)

The following are monthly one-person premiums for medical and prescription drug benefits at select ages:

For Those Not Eligible for Medicare		
Age	**Male**	**Female**
45	$355.26	$465.10
50	480.64	544.59
55	628.18	645.72
60	789.18	758.58

For Those Eligible for Medicare		
Age	**Male**	**Female**
65	$428.13	$394.25
70	493.84	444.06
75	548.25	486.56

We have not "age graded' the dental and vision premium rates for this valuation, since dental and vision claims do not vary significantly by age. The monthly per member dental premium is $26.11 for both pre-65 and post-65 retirees. The monthly per member vision premium is $1.89 for both pre-65 and post-65 retirees.

Based on the guidance provided by GASB on issues related to Medicare Part D payments to State and Local Governments effective as of June 30, 2006 an employer should apply the measurement requirements of GASB Statement No. 45 to determine the actuarial accrued liabilities, the annual required contribution of the employer, and the annual OPEB cost without reduction for Retiree Drug Subsidy (RDS) payments. Therefore the impact of the RDS that is part of the Medicare Prescription Drug Improvement and Modernization Act of 2003 is not reflected in this report

SECTION F

SUMMARY OF BENEFIT PROVISIONS AND VALUATION DATA

CITY OF YPSILANTI RETIREE HEALTH CARE PLAN
SUMMARY OF BENEFITS AS OF DECEMBER 31, 2005

PLAN PARTICIPANTS

Employees of the City of Ypsilanti Retiree Health Care Plan are eligible to receive retiree health care benefits.

NORMAL RETIREMENT BENEFIT

Service Years	Retiree AFSCME	POAM	COAM	IAFF	Non-Union
Under 10	0%	0%	0%	0%	0%
10-15	50%	50%	0%	0%	50%
15-20	100%	100%	0%	50%	100%
20 or more	100%	100%	100%	100%	100%

	Spouse AFSCME	POAM	COAM	IAFF	Non-Union
City Contribution:	$175	$150	$400	$400	$150

NORMAL RETIREMENT ELIGIBILITY

Normal retirement eligibility conditions for retiree health care benefits are as follows:

AFSCME MEMBERS:
Retiree must be at least age 50 and receiving a MERS pension.

POAM MEMBERS:
Employee may retire after completing 20 years of service regardless of age.

COAM MEMBERS:
Employees retiring with 20 years of service shall have their health insurance through Blue Cross/Blue Shield’s Community Blues PPO Plan and it will be maintained by the City of Ypsilanti.

IAFF MEMBERS:
Employee may retire after completing 20 years of service regardless of age. Paid by Retiree Health Fund

NON-UNION EMPLOYEES:
Employee may retire after reaching the age of 50 under the MERS Pension Program.

CITY OF YPSILANTI RETIREE HEALTH CARE PLAN
SUMMARY OF BENEFITS AS OF DECEMBER 31, 2005

EARLY RETIREMENT ELIGIBILITY

Members retiring under early retirement conditions are not eligible for retiree health care.

DEFERRED RETIREMENT ELIGIBILITY

Deferred retirement eligibility conditions for retiree health care benefits are as follows:

Health Care Benefit Eligibility Conditions
Any age with 10 years of service, benefit commences when member would have been eligible for normal retirement.

Health Care Benefit Provided by Plan
Benefit provided by the City will be the same as normal retirement.

DUTY AND NON- DUTY DEATH-IN-SERVICE RETIREMENT ELIGIBILITY

Duty Death retirement eligibility conditions for retiree health care benefits are as follows:

Health Care Benefit Eligibility Conditions
Retiree must be eligible for normal retirement, benefit commences immediately.

Health Care Benefit Provided by Plan
Full benefits provided by the Retiree Health Care Plan.

DUTY DISABLED RETIREMENT ELIGIBILITY

Duty Disability retirement eligibility conditions for retiree health care benefits are as follows:

Health Care Benefit Eligibility Conditions
Members are immediately eligible, benefit commences immediately.

Health Care Benefit Provided by Plan
Benefit provided by the City will be the same as normal retirement.

NON- DUTY DISABLED RETIREMENT ELIGIBILITY

Duty Disability retirement eligibility conditions for retiree health care benefits are as follows:

Health Care Benefit Eligibility Conditions
Any age with 10 years of service, benefit commences immediately.

Health Care Benefit Provided by Plan
Benefit provided by the City will be the same as normal retirement.

CITY OF YPSILANTI RETIREE HEALTH CARE PLAN
SUMMARY OF BENEFITS AS OF DECEMBER 31, 2005

BENEFITS FOR SPOUSES OF RETIRED EMPLOYEES

Spouses of retired employees are eligible to receive retiree health care benefits. Coverage continues to surviving spouses of deceased retirees.

NON-MEDICARE AND MEDICARE-ELIGIBLE PROVISIONS

Retirees are required to enroll in Medicare once eligible. Retiree pays Medicare premiums.

VISION COVERAGE

Health Care Benefit Eligibility Conditions

Members who retire after 12/31/2002 and meet retiree health care eligibility conditions may receive vision benefits.

Health Care Benefit Provided by Plan

Member: City pays 100% of the retiree vision coverage.
Spouse: City pays 100% of the retiree vision coverage.

DENTAL COVERAGE

Health Care Benefit Eligibility Conditions

Members who retire may receive dental benefits.

Health Care Benefit Provided by Plan

Member: City pays 100% of the retiree dental coverage.
Spouse: City pays 100% of the retiree dental coverage.

LIFE INSURANCE COVERAGE

City pays for $4,000 life insurance coverage for retirees. Retirees may pay $14.88/yr. for an additional amount of $1,000 making a total of $5,000.

RETIREE OPT-OUT

Retirees who decide to opt-out of the health care plan will be eligible to receive:

Single coverage	$2,000
Two-Person coverage	$4,000
Family Coverage	$5,000

in any year in which they receive coverage from another source.

This is a brief summary of the City of Ypsilanti Retiree Health Care Plan provisions. In the event that any description contained herein differs from the actual eligibility or benefit, the appropriate employee contract or governing document will prevail.

CITY OF YPSILANTI
ACTIVE MEMBERS AS OF DECEMBER 31, 2005
BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
20-24	7							7	$ 243,298
25-29	7	3						10	392,738
30-34	7	5	1					13	552,475
35-39	5	8	6	4				23	1,191,001
40-44	3	2	8	8				21	1,140,174
45-49	2	1	4	8	1			16	802,235
50-54	1	6		2			4	13	667,849
55-59	2	1	1		1	1	1	7	302,176
60-64			1		1		1	3	154,090
65 & Over			2				1	3	147,158
Totals	**34**	**26**	**23**	**22**	**3**	**1**	**7**	**116**	**$5,593,194**

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

Age:	41.7	years
Service:	11.2	years
Annual Pay:	$48,217	

CITY OF YPSILANTI
DEFERRED AND RETIRED MEMBERS AS OF DECEMBER 31, 2005
BY ATTAINED AGE

DEFERRED MEMBERS

Attained Age	Number of Retirees		
	Male	Female	Total
Under 55	3	1	4
55-59	0	0	0
60-64	0	0	0
65 & Over	0	0	0
Totals	**3**	**1**	**4**

RETIRED MEMBERS

Attained Age	Number of Retirees		
	Male	Female	Total
Under 55	11	2	13
55-59	13	5	18
60-64	14	9	23
65 & Over	39	20	59
Totals	**77**	**36**	**113**

The above totals include all retirees currently in the City's Medical, Prescription Drug, Dental, Vision and/or Life Insurance plans.

SECTION G

ACTUARIAL COST METHOD
AND
ACTUARIAL ASSUMPTIONS

VALUATION 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 by a level (principal and interest combined) percent of payroll contribution. The UAAL were determined using the funding value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL amortization payment is the amount required to fully amortize the UAAL over a 30-year period beginning on the valuation date. This UAAL payment does not reflect any payments expected to be made between the valuation date and the fiscal year for which the contributions in this report have been calculated.

The salary increase assumption used in this actuarial valuation projects annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases.

ACTUARIAL ASSUMPTIONS

Rates of Investment Return under a fully funding arrangement. **8.0% per year,** compounded annually, net of expenses. This rate consists of a real rate of return of 3.5% a year plus a long-term rate of wage growth of 4.5% a year. This assumption is used to equate the value of payments due at different points in time.

Rates of Investment Return under a pay-as-you-go arrangement. **4.5% per year,** compounded annually, net of expenses. This rate consists of no rate of return plus a long-term rate of wage growth of 4.5% a year. This assumption is used to equate the value of payments due at different points in time.

The rates of salary increase used for individual members is 4.5% per year.

MERS

The mortality table used to project the mortality experience of plan members is a 50% Male – 50% Female blend of the 1994 Group Annuity Mortality Table. For disabled retirees, the regular mortality tables are used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

Sample Attained Ages	Probability of Dying Next Year	Future Life Expectancy (years)
45	0.13%	37.34
50	0.20	32.60
55	0.34	27.98
60	0.62	23.53
65	1.16	19.40
70	1.87	15.66
75	2.99	12.24
80	5.07	9.25
Ref	#261x1sb0yrs0.5Unisex	#262x1sb0yrs0.5Unisex

Police/Fire

The mortality table used to measure post-retirement mortality was the 1983 Group Annuity Mortality Table, with a 2 year setback for men and a 3 year setback for women.

Sample Attained	Probability of Dying Next Year		Future Life Expectancy (years)	
Ages	Men	Women	Men	Women
45	0.22%	0.10%	33.74	39.69
50	0.39	0.16	29.18	34.92
55	0.61	0.25	24.82	30.24
60	0.92	0.42	20.64	25.67
65	1.56	0.71	16.69	21.29
70	2.75	1.24	13.18	17.13
75	4.46	2.40	10.15	13.37
80	7.41	4.29	7.64	10.20
Ref	#30x1sb2yrs0Unisex		#31x1sb3yrs0Unisex	

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

MERS

	Retirement Ages	Percent of Eligible Active Members Retiring within Next Year		
		F(50)	F(55)	Without F(50) or F(55) or F(N)
1	50	22%		
2	51	22		
3	52	22		
4	53	22		
5	54	24		
1	55	18	18%	
2	56	14	15	
3	57	16	10	
4	58	18	15	
5	59	18	20	
6	60	20	20	20%
7	61	24	24	24
8	62	24	24	24
9	63	24	24	24
10	64	27	27	27
11	65	30	30	30
12	66	30	30	30
13	67	30	30	30
14	68	30	30	30
15	69	30	30	30
16	70 and above	100	100	100
	Ref	766	765	763

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

MERS
F(N) Benefit

Age	Percent of Eligible Active Members Retiring Within Next Year	Age	Percent of Eligible Active Members Retiring Within Next Year	Age	Percent of Eligible Active Members Retiring Within Next Year
40	22%	51	22%	61	24%
41	22%	52	22%	62	24%
42	22%	53	22%	63	24%
43	22%	54	24%	64	27%
44	22%	55	18%	65	30%
45	22%	56	14%	66	30%
46	22%	57	16%	67	30%
47	22%	58	18%	68	30%
48	22%	59	18%	69	30%
49	22%	60	20%	70	100%
50	22%				

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

Police/Fire

Active Members Retiring Within Next Year

Years of Service	Police	Fire	Retirement Ages	Fire Chief
20	60 %	50 %	40	
21	40	15	41	
22	40	15	42	
23	50	15	43	
24	50	15	44	
25	50	15	45	20 %
26	50	15	46	20
27	50	15	47	20
28	50	15	48	20
29	50	15	49	20
30	100	100	50	20
			51	15
			52	10
			53	10
			54	10
			55	10
			56	10
			57	10
			58	10
			59	20
			60	100

Deferred members are assumed to retire at eligibility for pension benefits.

Rates of separation from active membership are used to estimate the number of employees at each age that are expected to terminate employment before qualifying for retirement benefits. The withdrawal rates do not apply to members eligible to retire, and do not include separation on account of death or disability. The assumed rates of withdrawal applied in the current valuation are based on years of service for members with less than 5 years of service, and based on age for members with 5 or more years of service.

Sample rates of separation from active employment are shown below:

MERS

Sample Ages	Service Index	Percent of Active Members Separating Within Next Year
ALL	0	18.0%
	1	18.0%
	2	16.0%
	3	12.0%
	4	10.0%
20	5 & Over	9.0%
25		9.0%
30		9.0%
35		7.0%
40		5.0%
45		4.0%
50		4.0%
55		3.0%
60		3.0%
65		2.0%

Ref 263
#434x1

Police/Fire

Sample Ages	Years of Service	Percent of Active Members Separating Within Next Year: Police	Fire
ALL	0	15.00 %	8.00 %
	1	13.00	6.00
	2	10.00	5.00
	3	7.00	4.00
	4	5.00	3.00
25	5 & Over	6.50	2.50
30		5.46	2.50
35		3.25	1.40
40		1.30	0.60
45		0.65	0.50
50		0.65	0.50
55		0.65	0.50
60		0.65	0.50

Rates of disability among active members are used to estimate the incidence of member disability in future years.

Sample Ages	Percent Becoming Disabled Within Next Year: MERS Male	MERS Female	Police/Fire Male	Police/Fire Female
20	0.02%	0.02%	0.15%	0.06%
25	0.02%	0.02%	0.02%	0.02%
30	0.02%	0.02%	0.02%	0.02%
35	0.06%	0.06%	0.06%	0.06%
40	0.06%	0.06%	0.06%	0.06%
45	0.11%	0.11%	0.11%	0.11%
50	0.24%	0.24%	0.24%	0.24%
55	0.41%	0.41%	0.41%	0.41%
60	0.41%	0.41%	0.41%	0.41%
65	0.41%	0.41%	0.41%	0.41%
Ref	#257x1	#257x1	#16x1	#17x1

For MERS 85% of the disabilities are assumed to be non-duty and 15% of the disabilities are assumed to be duty related. For Police/Fire 90% of the disabilities are assumed to be non-duty and 10% of the disabilities are assumed to be duty related.

Health care trend rates used in the valuation were as shown below.

Year	Medical and Prescription Drugs: Intermediate	Medical and Prescription Drugs: Pessimistic	Medical and Prescription Drugs: Optimistic	Dental	Vision
2006	12.0%	14.0%	9.0%	6.0%	3.0%
2007	11.0	13.0	8.0	5.0	3.0
2008	10.0	12.0	7.0	4.5	3.0
2009	9.0	11.0	6.0	4.5	3.0
2010	8.0	10.0	5.0	4.5	3.0
2011	7.0	9.0	4.5	4.5	3.0
2012	6.0	8.0	4.5	4.5	3.0
2013	5.0	7.0	4.5	4.5	3.0
2014	4.5	6.0	4.5	4.5	3.0
2015 & Later	4.5	5.0	4.5	4.5	3.0

GASB Statements No. 43 and No. 45
Required Supplementary Information

Valuation Date	December 31, 2005
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level percent Open
Remaining Amortization Periods	30 Years
Asset Valuation Method	N/A
Actuarial Assumptions:	
Discount Rate	8.0 % Per Year
Projected Salary Increases	4.5%
Valuation Health Care Cost Trend Rate	12% in 2006, grading to 4.5% Ultimate

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

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.

Incidence of Contributions: Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.

Marriage Assumption: 70% of males and 70% of females participating in MERS and 90% of males and 90% of females in the Police and Fire Retirement System are assumed to be married for purposes of death-in-service benefits. 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.

Election Percentage: It was assumed that 90% of eligible retirees will elect to receive retiree health care benefits through the City. Of those assumed to elect coverage, 30% were assumed to elect two-person coverage, if eligible. For those that elect two-person coverage, it was assumed that coverage would continue to the spouse upon death of the retiree, if eligible.

For Active employees who have opted out of the City's active health care plan, it was assumed they would elect retiree health care coverage upon retiring.

APPENDIX

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 (CONCLUDED)

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 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.

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 Employee Benefits (OPEB) - OPEB are postemployment benefits other than pensions. OPEB generally takes the form of health insurance and dental, vision, prescription drugs or other healthcare 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 accrued liability."

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

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
One Towne Square
Suite 800
Southfield, MI 48076-3723
248.799.9000 phone
248.799.9020 fax
www.gabrielroeder.com

October 27, 2006

Ms. Sallea Tisch
Accounting Supervisor
City of Ypsilanti Retiree Health Care Plan
City Hall
1 South Huron Street
Ypsilanti, Michigan 48197

Re: City of Ypsilanti Other Postemployment Benefits Valuation

Dear Ms. Tisch:

Enclosed are 20 copies of our report of the actuarial valuation of City of Ypsilanti Other Postemployment Benefits.

Respectfully submitted,

David T. Kausch

David T. Kausch, FSA, EA, MAAA

DTK
Enclosures