CITY OF YPSILANTI

ACCOUNTING FOR POST RETIREMENT HEALTH PLANS UNDER GASB #45

May 2008

Table of Contents

GASB#45 STUDIES -- EXECUTIVE SUMMARY

Background

The City of Ypsilanti sponsors life insurance and health benefit plans for retired former employees. The City subsidizes a portion of the cost of coverage for eligible retired employees and their dependents.

The Government Accounting Standards Board released (2004) GASB#45 detailing how governmental employers account for post retirement benefits other than pension plans. For the City, the effective date of GASB#45 is the fiscal year beginning after December 15, 2007. This study developed retiree liabilities and costs under the statement.

Actuarial Methods and Assumptions

For this report, liabilities and costs were developed under the two most common actuarial methodologies—entry age normal (used for many governmental pension plans) and projected unit credit (required for retiree benefit accounting for private sector organizations). Two significant assumptions affecting the measurement of obligations are: the interest rate (the discount rate), and the trend rate (the rate of increase in health care costs). Assumptions for termination of employment, retirement, plan participation and death were also utilized.

The Actuarial Accrued Liability (AAL) and the Annual Required Contribution (ARC) were developed. The AAL is the portion of the total present value of plan benefits which is allocated to prior periods. The Normal Cost represents the portion of benefit costs assigned to the current year. The Unfunded Accrued Liability (UAL) is the AAL less assets accumulated for retiree benefits. The UAL may be amortized over 30 years. The ARC is the sum of the Normal Cost for the year, plus the amortization of the UAL.

Results and Recommendations

Results were prepared for pre and post age 65 categories, active and retired and for public safety and other employees. Liabilities and costs were compared for three discount rates (4%, 5% and 8%) combined with two rates of health care cost increases (10% graded down to 5% in 2013 and 12% graded down to 7% by 2013). The discount scenarios correspond to funding levels—unfunded (pay-as-you-go), partially funded and funded.

The current cash outlay is the minimum employer contribution for a program. Based on the retiree census, the annual pay-as-you-go cost is $812,000 (13% of payroll). The recommended ARC is $1,714,844 (28.2% of payroll). The ARC includes the current cash cost.

Annual Required Contribution Summary
For Fiscal Year Ending December 31, 2007

Discount Rate: 8.00%
Health Care Trend Rate: 10% in 2008 to 5% in 2013

	MERS		Police & Fire		Total	
	Entry Age Normal Funding Method					
Market Value of Assets	$ 332,201		$ 1,107,670		$ 1,439,871	
Accrued Liability	$ 5,791,544		$ 11,046,602		$ 16,838,146	
Unfunded Accrued Liability	$ 5,459,343		$ 9,938,932		$ 15,398,275	
Normal Cost	$ 136,601		$ 247,037		$ 383,638	
Amortization Payment at 12/31 (30 Years)	$ 449,018		$ 817,454		$ 1,266,472	
Annual Required Contribution						
Active	$ 374,317		$ 734,785		$ 1,109,102	
Inactive	$ 234,276		$ 371,466		$ 605,742	
Total	$ 608,593	(29.9%)	$ 1,106,251	(27.4%)	$ 1,714,844	(28.2%)
Valuation Salary	$ 2,037,566		$ 4,038,229		$ 6,075,795	

( ) Amounts in parenthesis express contribution as a percentage of payroll

SECTION TWO:
BACKGROUND

Retiree Medical Plan

Under current policy, the City of Ypsilanti sponsors health benefit plans for employees and retired former employees. The provisions of the programs are summarized in the appendices of this study, but in general, the City of Ypsilanti subsidizes a portion of the cost for hospital and medical coverage for eligible retired employees and their dependents. The subsidy is an implied age related cost differential based upon the expected higher cost of coverage for retired employees versus the average cost for the entire group insured through the City of Ypsilanti's plans.

In 2004, the Government Accounting Standards Board released two new statements (GASB #43 and #45) detailing rules as to how governmental employers must account for post retirement benefit plans other than pension plans (pension plans are already accounted for under the rules of a prior statement).

City of Ypsilanti is a Phase II employer and must adopt the accounting standard for their fiscal 2008/2009 reporting and disclosure. The purpose of this study is to illustrate City of Ypsilanti's retiree health plan liabilities and annual costs according to the new accounting statement, under a range of potential assumptions and actuarial methods, so that assumptions and methods which are the most appropriate for City of Ypsilanti's programs can be developed. This report provides preliminary liability and expense results, with sensitivity analysis based upon selected variations in economic scenarios.

GASB 43/45

The new rules promulgated by the Government Accounting Standards Board (GASB) are Statement No. 43 – *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans* and Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The acronym *OPEB* refers to Other Post Employment Benefits and an OPEB plan refers to retirement plans other than pensions.

Effective Date of Statement

Statement No. 43 applies to the administrators or trustees of funded Plans, and Statement No. 45 applies to employers. Statement No. 43 is effective one year prior to the effective date of Statement No. 45. The effective dates of the statements vary according to the size of the tax revenue of the municipality. For City of Ypsilanti (a Phase II employer with more than $10 million in annual revenue, but less than $100 million), since the retiree health programs are not currently funded through a trusteed Plan, the applicable effective date is for the first fiscal year beginning after December 15, 2007 or fiscal year 2009, under Statement No. 45.

Funding Versus Accounting

Accounting standards affect the definition, measurement and allocation of liabilities and expenses that are published by employers in their annual financial statements, but they do not mandate employer funding of programs. In other words, the accounting statements require employers to accrue costs on their books, but do not require employers to make contributions.

Nonetheless, accounting liabilities under GASB standards are impacted by the level of employer funding. In general, pre-funded programs earn investment income on accumulated assets which pay as you go programs do not. The investment income from pre-funded plans lowers the amount of contributions required from the employer and is reflected and anticipated in the accounting liabilities via the assumed rate of return (discount rate).

Because the level and revenue limitations available for pre-funding the retiree health care program may vary, the illustrations in this study show several assumption sets that take into account various levels of funding, including pay as you go amounts.

Funding Patterns

An employee hired at age 20 will not begin to receive retiree health benefits for decades, although the employee earns these benefits during his working years, before retirement. An employer with young employees and no retirees has no cash disbursements for retiree health benefits for many years, although the obligation for these benefits begins to accumulate with the first employee. Putting more money aside than will be paid out currently in anticipation of payouts in the future is called *pre-funding* an obligation. Whereas making payments only as each benefit amount comes due is called *pay-as-you-go* or *terminal* funding.

Systematic prefunding patterns for retirement benefits are developed according to various actuarial methodologies, which can call for increasing, decreasing or level patterns of annual contributions depending upon the demographics of the group and the financial considerations of an employer.

Although GASB requirements do not mandate prefunding, the calculations of OPEB expense and liabilities acceptable for financial reporting under the statement are set forth in Statements #43 and #45, and include six actuarial funding methods.

Actuarial Funding Methods and Assumptions

The Annual Required Contribution (ARC) can be determined under any of six acceptable actuarial methods defined under the GASB standards. For this preliminary report, liabilities and annual costs were developed under two of the most common actuarial methodologies – *the entry age normal method* (currently used for many governmental pension plans) is a fairly stable method that is consistent with level percentage of payroll funding. The *projected unit credit method* (which is the actuarial cost method required by FASB for retiree benefit employer accounting for private sector organizations) may develop increasing costs (when measured as a percentage of payroll over time), depending upon the demographics and aging of the group.

Since this study is an illustration, many of the actuarial assumptions were selected to be consistent with assumptions disclosed in the pension plan valuations of similarly situated governmental employers. Two of the most significant assumptions affecting the measurement of retiree medical obligations are economic assumptions: the interest rate (also called discount rate), and the trend rate (the annual rate of increases in future health care costs). Two other very important assumptions are non economic and both of which greatly affect the magnitude of retiree liabilities - the assumption regarding the ages at which employees will retire and commence benefits under the program, and the assumed level of participation (percentage of retirees electing to take coverage) in the plan. A description of each of the assumptions used in the study is provided in Section Three of this report.

Substantive Plan (Benefit Plan Provisions)

Under GASB, the benefit program to be valued is referred to as the *Substantive Plan*, which may or may not be set forth in a written document, but which includes the benefits which are understood by the employer, employees and other participants to be provided for under the program.

The City of Ypsilanti's retiree medical plan is understood by the employees and retirees to provide continuation of employer subsidized health coverage (for the retiree and their dependents, if any) upon the retirement from City of Ypsilanti after meeting the age and service requirements for retirement.

Data

The calculations in this report are based upon data submitted by City of Ypsilanti for active and retired employees and their dependents.

Claims Costs

The costs of the benefit programs measured were based upon the premium rates in effect at December 31, 2007.

GASB Statement Valuation Components

The Statement requires several measurements. An **Actuarial Accrued Liability** (AAL) must be calculated and an **Annual Required Contribution** (ARC) must be developed. The Actuarial Accrued Liability is the portion of the total actuarial present value of plan benefits which is allocated (based upon the Actuarial Cost Method) to prior periods and not to be provided for by future **Normal Costs**. The Normal Cost represents the portion of benefit costs assigned to the current year.

The Normal Cost and the Actuarial Accrued Liability (the basis for calculating the Annual Required Contribution) are dependent upon the Actuarial Cost Method selected. The Statement permits any of six Actuarial Cost Methods, two of which are the Entry Age Normal Method and the Projected Unit Credit Method.

The Annual Required Contribution

The Normal Cost represents the value of benefits under the Actuarial Cost Method being allocated to the valuation year. In addition to the Normal Cost, the current value of benefits attributable to accruals in prior years, the Unfunded Liability (UAL), must also be reflected. The Unfunded Actuarial Liability is the Actuarial Accrued Liability less any assets accumulated under a dedicated trust or fund for payment of the retiree health plan benefit liabilities. Under the GASB rules, the Unfunded Actuarial Liability costs may be amortized (spread) over a period of years not to exceed 30 years.

The Annual Required Contribution (ARC) is the sum of the Normal Cost for the valuation year, plus the Amortization Payment Cost of the Unfunded Accrued Liability.

Accounting Valuation

An accounting valuation is determined for the sole purpose of meeting Plan and employer financial accounting requirements as prescribed under GASB Statements #43 and #45 and may not be appropriate for the determination of the contribution level or the Plans' funding requirements for other purposes, such as a basis for long term planning and projections, negotiating benefit levels, or meeting statutory or other funding requirements.

Separate annual actuarial funding valuations should be prepared which present results pertaining to the specific purpose of the valuation such as for determining contribution levels, short and long term funding adequacy, compliance with state and local statues, and to assess the impact of variations in economic variables, or for other purposes.

To the best of my knowledge, this report was prepared in accordance with generally recognized actuarial methods and on a basis consistent with my understanding of GASB Statements #43 and #45. Determinations for purposes other than meeting employer financial accounting requirements, such as judging benefit security at termination or adequacy of funding for an ongoing plan, may be significantly different from the results in this study.

Respectfully Submitted,

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Bernard E. Hartt, F.S.A. Date
Principal and Consulting Actuary
MWM Consulting Group

SECTION THREE:
RESULTS AND ANALYSIS

The results of the study are summarized in total. Results were also developed separately according to the pre and post 65 age group categories and for public safety and other employees. Results were developed under six economic assumptions sets and two cost methods. Liabilities are also summarized by participant status (active, retired) with additional breakdowns available identifying the proportion of liability attributable to pre-65 and post-65 claims.

Closed Group Valuation

The results in this report are preliminary. The study has been prepared on a closed group valuation basis, meaning only the existing population has been considered in the valuation process. Under a closed group valuation, the sensitivity of costs and liabilities to changes in benefit programs, and to major economic variables can be illustrated in magnitudes related to the current fiscal budget.

Open Group Valuation

If the City of Ypsilanti desires, a long term forecast under an open group valuation process can be prepared to illustrate costs over a longer term. Open group forecast valuations, which show year by year results, project and model results for decades in the future. The open group forecast valuations take into account the replacement of exiting employees with new entrants, and reflect net rates of growth in the employee population. The open group projection models the costs associated with not only the current employees, but also the costs of hypothetical future employees created according to growth patterns which would be agreed upon with City of Ypsilanti. For such a study the employee group can be modeled to remain constant in number, or may include the effects of an increasing, decreasing or aging work force upon the retiree medical plan costs.

Substantive Plan

The current plan of benefits valued was a continuation of coverage of City of Ypsilanti's employee group health care plan. Retirees contribute the premium or monthly claims costs amounts applicable for active employees. No other benefits or supplements are provided beyond the continuation of coverage. Under the current Plan therefore, City of Ypsilanti provides an economic benefit through an indirect or implied subsidy based upon the difference in health care costs of the active employee group versus the retired group.

The value of the subsidy for each participant is based upon the difference between the actuarially adjusted age related costs and the retiree contribution (the group respective group premium rate).

Actuarial Cost Methods

The Annual Required Contribution (ARC) and actuarial accrued liabilities were developed under two common cost methods, the entry age normal method and the projected unit credit method.

Annual Required Contributions - Highlights

Depending upon the discount rate and trend scenario, the Annual Required Contribution (ARC) using the entry age normal method for the 2008 fiscal year, ranges from $1,714,844 (28.2% of payroll) to $5,036,425 (82.9% of payroll). These calculations adopt a thirty year amortization period (the maximum permitted) for amortization of the unfunded accrued liability.

The ARC can be compared with the related actual cash outlay on a pay as you go basis. The related cash outlay for the plan also represents the minimum employer contribution if the plan remains unfunded. The minimum contribution each year will by necessity be at least equal to the portion of the pay-as-you-go premium cost associated with the subsidy.

For the 2008 fiscal year, based upon the current retiree census, the annual pay-as-you-go cost is approximately $812,000 (13% of payroll) versus the ARC amounts which range from 28.2% of payroll to 82.9% of payroll, depending upon the assumptions and amortization periods.

Actuarial Assumptions and Economic Scenarios

A majority of the demographic actuarial assumptions (rates of mortality, disability, retirement, withdrawal) reflect the assumptions used in similar municipal pension plans.

Results under six sets of economic assumptions were developed. Three variations in the discount rate (4%, 5%, and 8%) were combined with two variations in the rate of future increase in health costs – two trend rates - (10% graded down to 5% by 2013 and 12% graded down to 7% by 2013). Both of the two assumed trend rates decline rather steeply to their ultimate rates by 2013. To the extent the rate of decline in health care trends is slower than those assumed; the costs will be higher than illustrated in this study.

The three discount rate scenarios correspond to the expected funding level of the benefit program, unfunded (pay-as-you-go), partially funded, and funded. In general, higher levels of pre-funding correlate with higher anticipated asset returns and higher assumed discount rates since funds remain invested for significant periods earning returns as opposed to being available only to meet current benefit payments.

Preliminary Sensitivity Analysis

To assist in comparing the results, contribution amounts and liabilities have been summarized in exhibits under each of the economic scenarios. The non-economic assumptions combined with the various economic scenarios illustrate the range and sensitivity of results to selected factors.

Graphs and Exhibits

Graph 1 shows the Annual Required Contribution in dollars and as a percentage of payroll under the Entry Age Method. This graph illustrates the sensitivity of the Annual Required Contribution to changes in the assumed combinations of discount and trend rates under the six combinations of economic assumptions.

- Graph 1 2008 Annual Required Contribution Amounts (ARC)

Following the graph is a chart which provides a key to the economic scenarios for each of the 12 exhibits supporting the results illustrated in Graph 1. The exhibits display the liability amounts, and selected valuation results including the component basis for the annual contribution amounts under the Entry Age Method and the Projected Unit Credit Method.

EAN Method Annual Required Contribution (30 Year Amortization) by Discount Rate

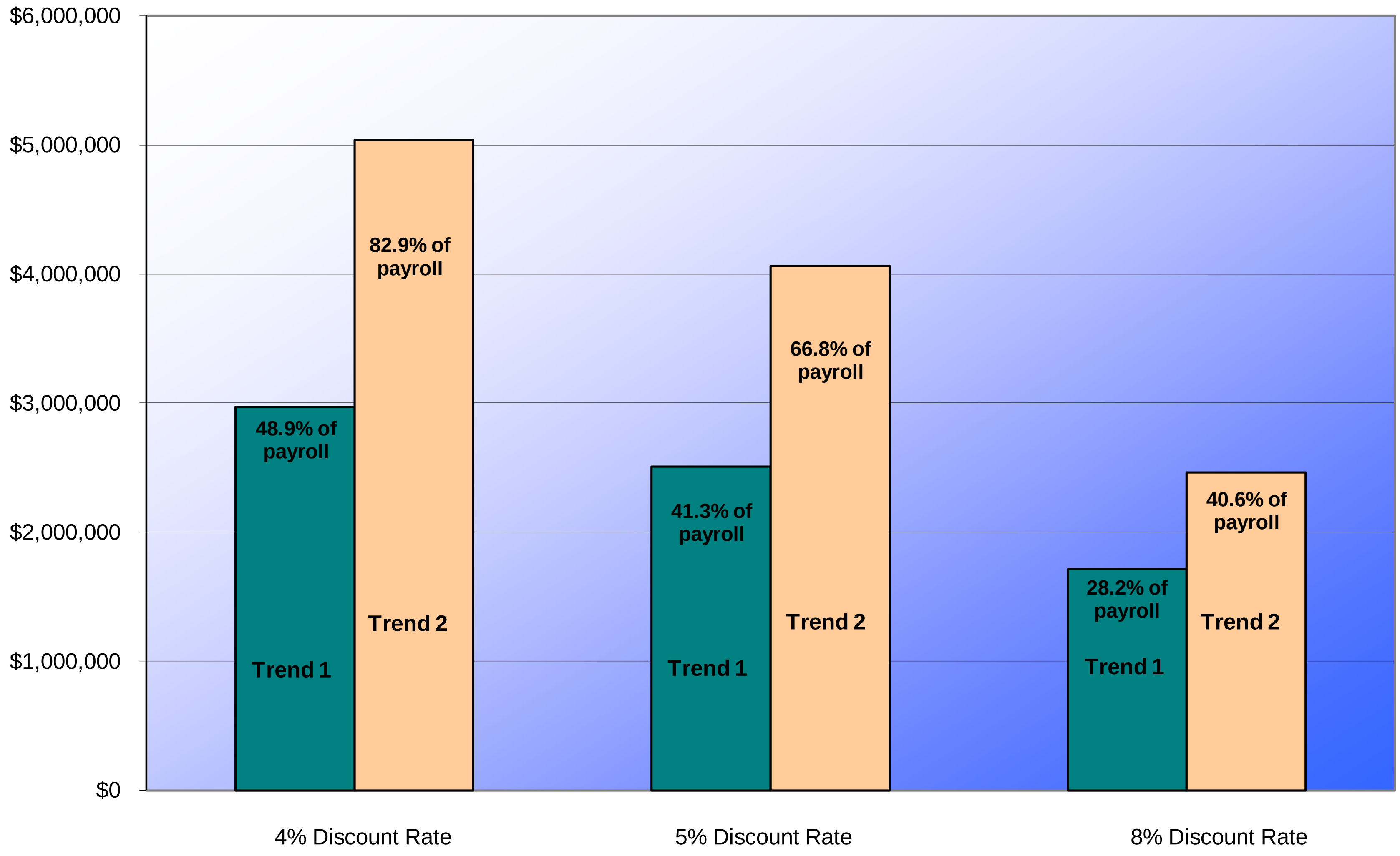


EXHIBIT KEY ACCORDING TO ECONOMIC ASSUMPTION SETS

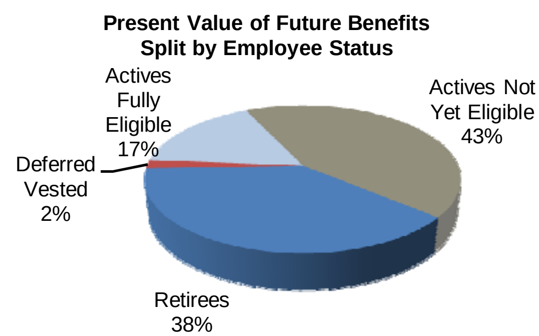
Exhibit Description	4% Discount Rate 10%-5% By 2012 Graded Trend	5% Discount Rate 10%-5% By 2012 Graded Trend	8% Discount Rate 10%-5% By 2012 Graded Trend	4% Discount Rate 12% -7% By 2012 Graded Trend	5% Discount Rate 12% -7% By 2012 Graded Trend	8% Discount Rate 12%-7% By 2012 Graded Trend
Liability Summary Present Value of Total Future Benefits By Participant Category By Age of Claimant Entry Age Normal Accrued Liability By Participant Category By Age of Claimant Projected Unit Credit Accrued Liability By Participant Category By Age of Claimant	A1	B1	C1	A1a	B1a	C1a
Annual Required Contribution Entry Age Normal Method Actuarial Accrued Liabilities Normal Cost Amortization Component Annual Required Contributions Projected Unit Credit Method Actuarial Accrued Liabilities Normal Cost Amortization Component Annual Required Contributions	A2	B2	C2	A2a	B2a	C2a

Exhibit A1
Liability Summary
For Fiscal Year Ending December 31, 2007

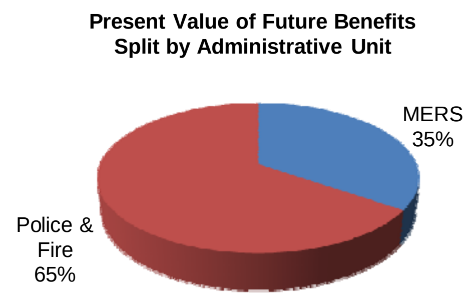
Discount Rate: 4.00%
Inflation: Table #1
(10% in 2008 to 5% in 2013)

Current Plan Graphs

	Present Value of Future Benefits	Entry Age Normal Accrued Liability	Projected Unit Credit Accrued Liability
By Employee Status			
Retirees	$16,511,127	$16,511,127	$16,511,127
Deferred Vested	$ 788,526	$ 788,526	$ 788,526
Actives Fully Eligible	$ 7,218,429	$ 3,868,179	$ 3,934,765
Actives Not Yet Eligible	$18,612,566	$ 9,974,018	$10,145,709
Total	**$43,130,648**	**$31,141,850**	**$31,380,127**



	Present Value of Future Benefits	Entry Age Normal Accrued Liability	Projected Unit Credit Accrued Liability
By Administrative Unit			
MERS	$14,943,925	$10,574,206	$10,405,612
Police & Fire	$28,186,723	$20,567,644	$20,974,515
Total	**$43,130,648**	**$31,141,850**	**$31,380,127**



	Present Value of Future Benefits	Entry Age Normal Accrued Liability	Projected Unit Credit Accrued Liability
By Age of Claimant			
Pre 65 Claims	$10,740,504	$ 6,692,485	$ 6,810,808
Post 65 Claims	$32,390,144	$24,449,365	$24,569,319
Total	**$43,130,648**	**$31,141,850**	**$31,380,127**

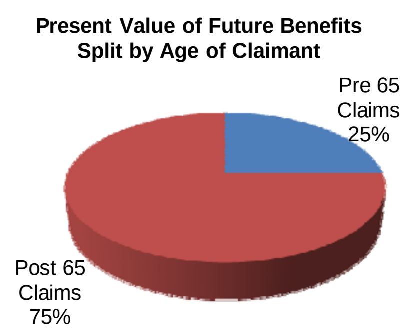
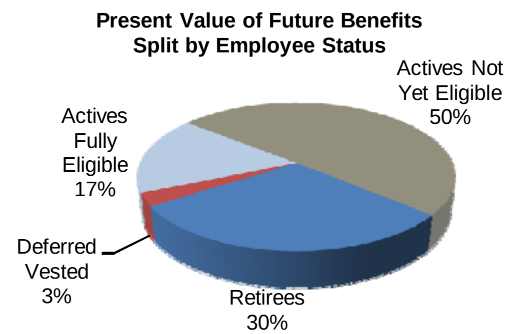


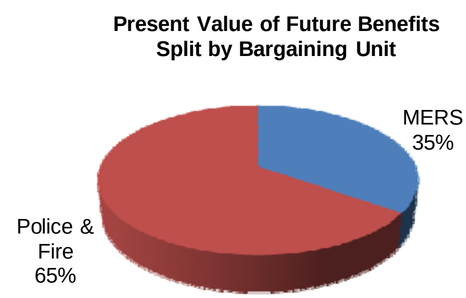
Exhibit A1a
Liability Summary
For Fiscal Year Ending December 31, 2007

Discount Rate: 4.00%
Inflation: Table #2
(12% in 2008 to 7% in 2013)

	Present Value of Future Benefits	Entry Age Normal Accrued Liability	Projected Unit Credit Accrued Liability
By Employee Status			
Retirees	$20,896,215	$20,896,215	$20,896,215
Deferred Vested	$ 1,996,684	$ 1,996,684	$ 1,996,684
Actives Fully Eligible	$12,062,205	$ 6,033,436	$ 6,081,432
Actives Not Yet Eligible	$35,427,977	$17,720,843	$17,861,810
Total	**$70,383,081**	**$46,647,178**	**$46,836,141**
By Administrative Unit			
MERS	$24,508,860	$15,948,032	$15,573,636
Police & Fire	$45,874,221	$30,699,146	$31,262,505
Total	**$70,383,081**	**$46,647,178**	**$46,836,141**
By Age of Claimant			
Pre 65 Claims	$14,715,729	$ 8,471,642	$ 8,562,756
Post 65 Claims	$55,667,352	$38,175,536	$38,273,385
Total	**$70,383,081**	**$46,647,178**	**$46,836,141**

Current Plan Graphs





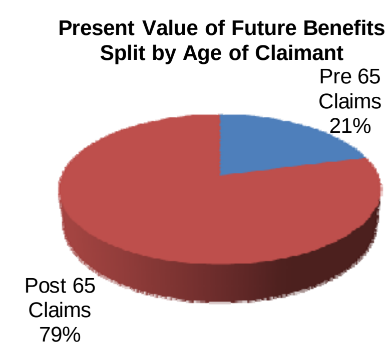


Exhibit A2
Annual Required Contribution Summary
For Fiscal Year Ending December 31, 2007

Discount Rate: 4.00%
Health Care Trend Rate: 10% in 2008 to 5% in 2013

	MERS		Police & Fire		Total	
	Entry Age Normal Funding Method					
Market Value of Assets	$ 332,201		$ 1,107,670		$ 1,439,871	
Accrued Liability	$ 10,574,206		$ 20,567,644		$ 31,141,850	
Unfunded Accrued Liability	$ 10,242,005		$ 19,459,974		$ 29,701,979	
Normal Cost	$ 429,560		$ 832,306		$ 1,261,866	
Amortization Payment at 12/31 (30 Years)	$ 569,516		$ 1,082,089		$ 1,651,604	
Annual Required Contribution						
Active	$ 641,710		$ 1,367,496		$ 2,009,206	
Inactive	$ 377,151		$ 584,811		$ 961,962	
Total	$ 1,018,861	(50.0%)	$ 1,952,307	(48.3%)	$ 2,971,168	(48.9%)
Valuation Salary	$ 2,037,566		$ 4,038,229		$ 6,075,795	
	Projected Unit Credit Funding Method					
Market Value of Assets	$ 332,201		$ 1,107,670		$ 1,439,871	
Accrued Liability	$ 10,405,612		$ 20,974,515		$ 31,380,127	
Unfunded Accrued Liability	$ 10,073,411		$ 19,866,845		$ 29,940,256	
Normal Cost	$ 390,840		$ 718,192		$ 1,109,032	
Amortization Payment at 12/31 (30 Years)	$ 560,141		$ 1,104,713		$ 1,664,854	
Annual Required Contribution						
Active	$ 592,663		$ 1,274,195		$ 1,866,857	
Inactive	$ 377,151		$ 584,811		$ 961,962	
Total	$ 969,814	(47.6%)	$ 1,859,006	(46.0%)	$ 2,828,820	(46.6%)
Valuation Salary	$ 2,037,566		$ 4,038,229		$ 6,075,795	

( ) Amounts in parenthesis express contribution as a percentage of payroll

Exhibit A2a
Annual Required Contribution Summary
For Fiscal Year Ending December 31, 2007

Discount Rate: 4.00%
Health Care Trend Rate: 12% in 2008 to 7% in 2013

	MERS		Police & Fire		Total	
	Entry Age Normal Funding Method					
Market Value of Assets	$ 332,201		$ 1,107,670		$ 1,439,871	
Accrued Liability	$ 15,948,032		$ 30,699,146		$ 46,647,178	
Unfunded Accrued Liability	$ 15,615,831		$ 29,591,476		$ 45,207,307	
Normal Cost	$ 833,554		$ 1,591,276		$ 2,424,830	
Amortization Payment at 12/31 (30 Years)	$ 868,332		$ 1,645,460		$ 2,513,791	
Annual Required Contribution						
Active	$ 1,220,118		$ 2,543,328		$ 3,763,446	
Inactive	$ 515,472		$ 757,507		$ 1,272,979	
Total	$ 1,735,590	(85.2%)	$ 3,300,836	(81.7%)	$ 5,036,425	(82.9%)
Valuation Salary	$ 2,037,566		$ 4,038,229		$ 6,075,795	
	Projected Unit Credit Funding Method					
Market Value of Assets	$ 332,201		$ 1,107,670		$ 1,439,871	
Accrued Liability	$ 15,573,636		$ 31,262,505		$ 46,836,141	
Unfunded Accrued Liability	$ 15,241,435		$ 30,154,835		$ 45,396,270	
Normal Cost	$ 747,610		$ 1,367,067		$ 2,114,677	
Amortization Payment at 12/31 (30 Years)	$ 847,513		$ 1,676,786		$ 2,524,299	
Annual Required Contribution						
Active	$ 1,111,241		$ 2,346,625		$ 3,457,866	
Inactive	$ 515,472		$ 757,507		$ 1,272,979	
Total	$ 1,626,713	(79.8%)	$ 3,104,133	(76.9%)	$ 4,730,846	(77.9%)
Valuation Salary	$ 2,037,566		$ 4,038,229		$ 6,075,795	

( ) Amounts in parenthesis express contribution as a percentage of payroll

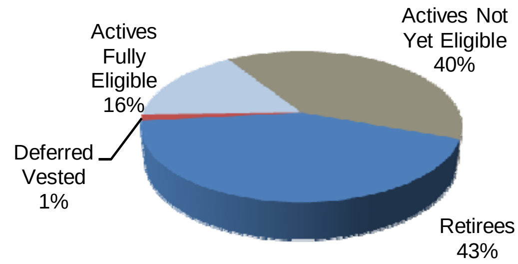
Exhibit B1
Liability Summary
For Fiscal Year Ending December 31, 2007

Discount Rate: 5.00%
Inflation: Table #1
(10% in 2008 to 5% in 2013)

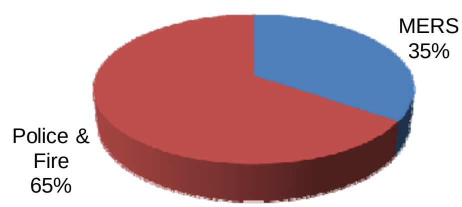
	Present Value of Future Benefits	Entry Age Normal Accrued Liability	Projected Unit Credit Accrued Liability
By Employee Status			
Retirees	$14,651,616	$14,651,616	$14,651,616
Deferred Vested	$ 504,549	$ 504,549	$ 504,549
Actives Fully Eligible	$ 5,609,850	$ 3,209,629	$ 3,172,852
Actives Not Yet Eligible	$13,579,249	$ 7,769,256	$ 7,680,232
Total	**$34,345,264**	**$26,135,050**	**$26,009,249**
By Administrative Unit			
MERS	$11,904,720	$ 8,890,400	$ 8,665,053
Police & Fire	$22,440,544	$17,244,650	$17,344,196
Total	**$34,345,264**	**$26,135,050**	**$26,009,249**
By Age of Claimant			
Pre 65 Claims	$ 9,137,579	$ 6,047,065	$ 6,030,868
Post 65 Claims	$25,207,685	$20,087,985	$19,978,381
Total	**$34,345,264**	**$26,135,050**	**$26,009,249**

Current Plan Graphs

Present Value of Future Benefits
Split by Employee Status



Present Value of Future Benefits
Split by Bargaining Unit



Present Value of Future Benefits
Split by Age of Claimant

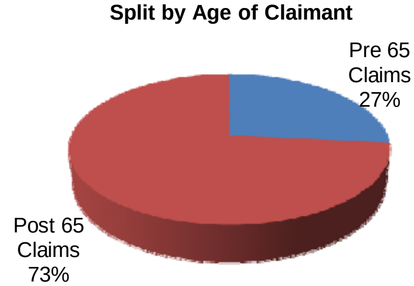
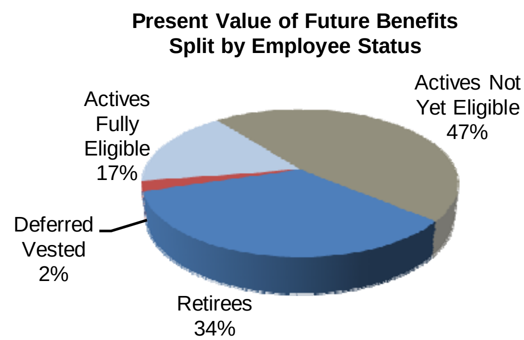


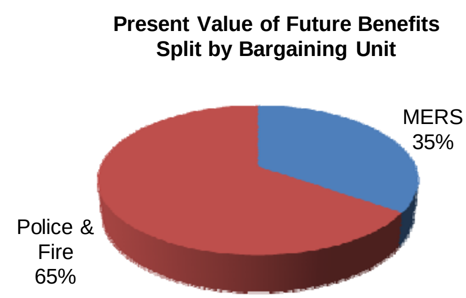
Exhibit B1a
Liability Summary
For Fiscal Year Ending December 31, 2007

Discount Rate: 5.00%
Inflation: Table #2
(12% in 2008 to 7% in 2013)

	Present Value of Future Benefits	Entry Age Normal Accrued Liability	Projected Unit Credit Accrued Liability
By Employee Status			
Retirees	$18,257,135	$18,257,135	$18,257,135
Deferred Vested	$ 1,211,442	$ 1,211,442	$ 1,211,442
Actives Fully Eligible	$ 9,080,270	$ 4,874,150	$ 4,767,455
Actives Not Yet Eligible	$24,921,135	$13,377,285	$13,084,455
Total	**$53,469,982**	**$37,720,012**	**$37,320,487**
By Administrative Unit			
MERS	$18,573,557	$12,830,064	$12,377,514
Police & Fire	$34,896,425	$24,889,948	$24,942,973
Total	**$53,469,982**	**$37,720,012**	**$37,320,487**
By Age of Claimant			
Pre 65 Claims	$12,307,679	$ 7,579,955	$ 7,495,477
Post 65 Claims	$41,162,303	$30,140,057	$29,825,010
Total	**$53,469,982**	**$37,720,012**	**$37,320,487**

Current Plan Graphs





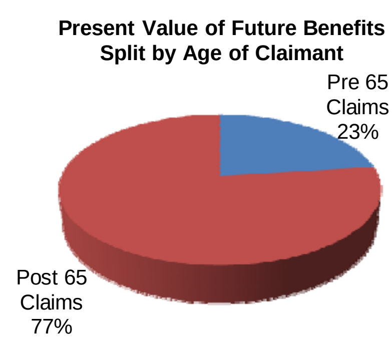


Exhibit B2
Annual Required Contribution Summary
For Fiscal Year Ending December 31, 2007

Discount Rate: 5.00%
Health Care Trend Rate: 10% in 2008 to 5% in 2013

	MERS		Police & Fire		Total	
	Entry Age Normal Funding Method					
Market Value of Assets	$ 332,201		$ 1,107,670		$ 1,439,871	
Accrued Liability	$ 8,890,400		$ 17,244,650		$ 26,135,050	
Unfunded Accrued Liability	$ 8,558,199		$ 16,136,980		$ 24,695,179	
Normal Cost	$ 316,874		$ 602,311		$ 919,185	
Amortization Payment at 12/31 (30 Years)	$ 530,213		$ 999,746		$ 1,529,959	
Annual Required Contribution						
Active	$ 539,842		$ 1,127,012		$ 1,666,854	
Inactive	$ 328,163		$ 514,608		$ 842,772	
Total	$ 868,005	(42.6%)	$ 1,641,620	(40.7%)	$ 2,509,626	(41.3%)
Valuation Salary	$ 2,037,566		$ 4,038,229		$ 6,075,795	
	Projected Unit Credit Funding Method					
Market Value of Assets	$ 332,201		$ 1,107,670		$ 1,439,871	
Accrued Liability	$ 8,665,053		$ 17,344,196		$ 26,009,249	
Unfunded Accrued Liability	$ 8,332,852		$ 16,236,526		$ 24,569,378	
Normal Cost	$ 283,599		$ 524,166		$ 807,765	
Amortization Payment at 12/31 (30 Years)	$ 516,251		$ 1,005,914		$ 1,522,165	
Annual Required Contribution						
Active	$ 491,439		$ 1,053,257		$ 1,544,696	
Inactive	$ 328,163		$ 514,608		$ 842,772	
Total	$ 819,603	(40.2%)	$ 1,567,865	(38.8%)	$ 2,387,468	(39.3%)
Valuation Salary	$ 2,037,566		$ 4,038,229		$ 6,075,795	

( ) Amounts in parenthesis express contribution as a percentage of payroll

Exhibit B2
Annual Required Contribution Summary
For Fiscal Year Ending December 31, 2007

Discount Rate: 5.00%
Health Care Trend Rate: 12% in 2008 to 7% in 2013

	MERS		Police & Fire		Total	
	Entry Age Normal Funding Method					
Market Value of Assets	$ 332,201		$ 1,107,670		$ 1,439,871	
Accrued Liability	$ 12,830,064		$ 24,889,948		$ 37,720,012	
Unfunded Accrued Liability	$ 12,497,863		$ 23,782,278		$ 36,280,141	
Normal Cost	$ 598,747		$ 1,116,024		$ 1,714,771	
Amortization Payment at 12/31 (30 Years)	$ 774,289		$ 1,473,401		$ 2,247,691	
Annual Required Contribution						
Active	$ 977,396		$ 2,000,352		$ 2,977,748	
Inactive	$ 429,548		$ 653,019		$ 1,082,567	
Total	$ 1,406,944	(69.1%)	$ 2,653,371	(65.7%)	$ 4,060,315	(66.8%)
Valuation Salary	$ 2,037,566		$ 4,038,229		$ 6,075,795	
	Projected Unit Credit Funding Method					
Market Value of Assets	$ 332,201		$ 1,107,670		$ 1,439,871	
Accrued Liability	$ 12,377,514		$ 24,942,973		$ 37,320,487	
Unfunded Accrued Liability	$ 12,045,313		$ 23,835,303		$ 35,880,616	
Normal Cost	$ 525,778		$ 960,992		$ 1,486,770	
Amortization Payment at 12/31 (30 Years)	$ 746,252		$ 1,476,686		$ 2,222,939	
Annual Required Contribution						
Active	$ 873,895		$ 1,844,858		$ 2,718,753	
Inactive	$ 429,548		$ 653,019		$ 1,082,567	
Total	$ 1,303,443	(64.0%)	$ 2,497,877	(61.9%)	$ 3,801,320	(62.6%)
Valuation Salary	$ 2,037,566		$ 4,038,229		$ 6,075,795	

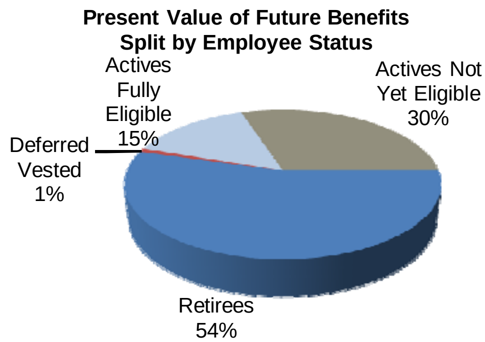
( ) Amounts in parenthesis express contribution as a percentage of payroll

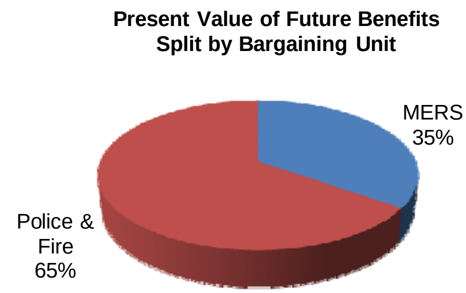
Exhibit C1
Liability Summary
For Fiscal Year Ending December 31, 2007

Discount Rate: 8.00%
Inflation: Table #1
(10% in 2008 to 5% in 2013)

	Present Value of Future Benefits	Entry Age Normal Accrued Liability	Projected Unit Credit Accrued Liability
By Employee Status			
Retirees	$10,736,648	$10,736,648	$10,736,648
Deferred Vested	$ 156,850	$ 156,850	$ 156,850
Actives Fully Eligible	$ 2,912,294	$ 1,956,794	$ 1,815,803
Actives Not Yet Eligible	$ 5,935,119	$ 3,987,854	$ 3,700,522
Total	**$19,740,911**	**$16,838,146**	**$16,409,823**
By Administrative Unit			
MERS	$ 6,877,971	$ 5,791,544	$ 5,575,513
Police & Fire	$12,862,940	$11,046,602	$10,834,310
Total	**$19,740,911**	**$16,838,146**	**$16,409,823**
By Age of Claimant			
Pre 65 Claims	$ 5,963,467	$ 4,551,351	$ 4,356,916
Post 65 Claims	$13,777,445	$12,286,795	$12,052,907
Total	**$19,740,912**	**$16,838,146**	**$16,409,823**

Current Plan Graphs





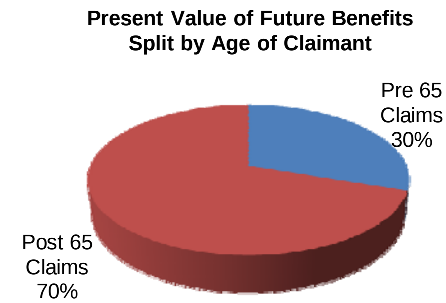
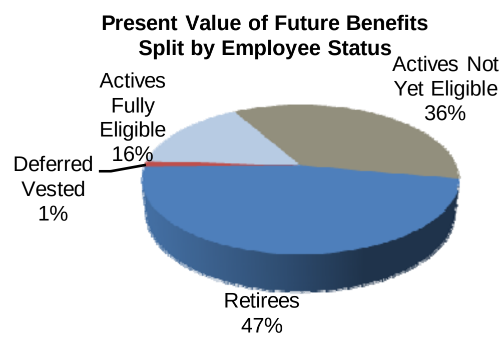


Exhibit C1a
Liability Summary
For Fiscal Year Ending December 31, 2007

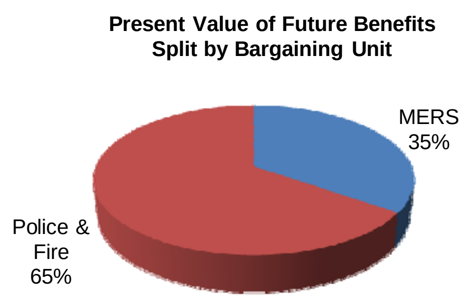
Discount Rate: 8.00%
Inflation: Table #2
(12% in 2008 to 7% in 2013)

Current Plan Graphs

	Present Value of Future Benefits	Entry Age Normal Accrued Liability	Projected Unit Credit Accrued Liability
By Employee Status			
Retirees	$12,857,621	$12,857,621	$12,857,621
Deferred Vested	$ 325,423	$ 325,423	$ 325,423
Actives Fully Eligible	$ 4,324,189	$ 2,765,424	$ 2,531,015
Actives Not Yet Eligible	$ 9,849,629	$ 6,299,077	$ 5,765,141
Total	**$27,356,862**	**$22,247,545**	**$21,479,200**



	Present Value of Future Benefits	Entry Age Normal Accrued Liability	Projected Unit Credit Accrued Liability
By Administrative Unit			
MERS	$ 9,511,670	$ 7,594,347	$ 7,213,667
Police & Fire	$17,845,193	$14,653,198	$14,265,533
Total	**$27,356,863**	**$22,247,545**	**$21,479,200**



	Present Value of Future Benefits	Entry Age Normal Accrued Liability	Projected Unit Credit Accrued Liability
By Age of Claimant			
Pre 65 Claims	$ 7,656,126	$ 5,545,905	$ 5,245,677
Post 65 Claims	$19,700,737	$16,701,640	$16,233,523
Total	**$27,356,863**	**$22,247,545**	**$21,479,200**

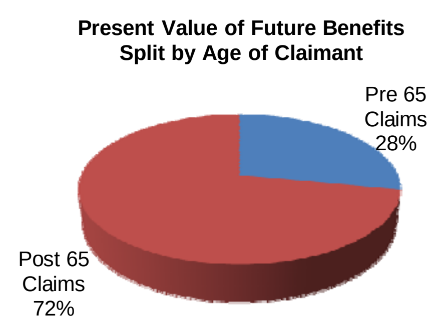


Exhibit C2
Annual Required Contribution Summary
For Fiscal Year Ending December 31, 2007

Discount Rate: 8.00%
Health Care Trend Rate: 10% in 2008 to 5% in 2013

	MERS		Police & Fire		Total	
	Entry Age Normal Funding Method					
Market Value of Assets	$ 332,201		$ 1,107,670		$ 1,439,871	
Accrued Liability	$ 5,791,544		$ 11,046,602		$ 16,838,146	
Unfunded Accrued Liability	$ 5,459,343		$ 9,938,932		$ 15,398,275	
Normal Cost	$ 136,601		$ 247,037		$ 383,638	
Amortization Payment at 12/31 (30 Years)	$ 449,018		$ 817,454		$ 1,266,472	
Annual Required Contribution						
Active	$ 374,317		$ 734,785		$ 1,109,102	
Inactive	$ 234,276		$ 371,466		$ 605,742	
Total	$ 608,593	(29.9%)	$ 1,106,251	(27.4%)	$ 1,714,844	(28.2%)
Valuation Salary	$ 2,037,566		$ 4,038,229		$ 6,075,795	
	Projected Unit Credit Funding Method					
Market Value of Assets	$ 332,201		$ 1,107,670		$ 1,439,871	
Accrued Liability	$ 5,575,513		$ 10,834,310		$ 16,409,823	
Unfunded Accrued Liability	$ 5,243,312		$ 9,726,640		$ 14,969,952	
Normal Cost	$ 120,440		$ 229,702		$ 350,142	
Amortization Payment at 12/31 (30 Years)	$ 431,250		$ 799,993		$ 1,231,243	
Annual Required Contribution						
Active	$ 339,057		$ 698,624		$ 1,037,681	
Inactive	$ 234,276		$ 371,466		$ 605,742	
Total	$ 573,333	(28.1%)	$ 1,070,090	(26.5%)	$ 1,643,423	(27.0%)
Valuation Salary	$ 2,037,566		$ 4,038,229		$ 6,075,795	

( ) Amounts in parenthesis express contribution as a percentage of payroll

Exhibit C2a
Annual Required Contribution Summary
For Fiscal Year Ending December 31, 2007

Discount Rate: 8.00%
Health Care Trend Rate: 12% in 2008 to 7% in 2013

	MERS		Police & Fire		Total	
	Entry Age Normal Funding Method					
Market Value of Assets	$ 332,201		$ 1,107,670		$ 1,439,871	
Accrued Liability	$ 7,594,347		$ 14,653,198		$ 22,247,545	
Unfunded Accrued Liability	$ 7,262,146		$ 13,545,528		$ 20,807,674	
Normal Cost	$ 239,753		$ 420,247		$ 660,000	
Amortization Payment at 12/31 (30 Years)	$ 597,294		$ 1,114,087		$ 1,711,382	
Annual Required Contribution						
Active	$ 585,416		$ 1,145,941		$ 1,731,358	
Inactive	$ 284,469		$ 448,586		$ 733,055	
Total	$ 869,885	(42.7%)	$ 1,594,527	(39.5%)	$ 2,464,412	(40.6%)
Valuation Salary	$ 2,037,566		$ 4,038,229		$ 6,075,795	
	Projected Unit Credit Funding Method					
Market Value of Assets	$ 332,201		$ 1,107,670		$ 1,439,871	
Accrued Liability	$ 7,213,667		$ 14,265,533		$ 21,479,200	
Unfunded Accrued Liability	$ 6,881,466		$ 13,157,863		$ 20,039,329	
Normal Cost	$ 204,638		$ 380,116		$ 584,754	
Amortization Payment at 12/31 (30 Years)	$ 565,984		$ 1,082,203		$ 1,648,187	
Annual Required Contribution						
Active	$ 516,385		$ 1,071,101		$ 1,587,486	
Inactive	$ 284,469		$ 448,586		$ 733,055	
Total	$ 800,854	(39.3%)	$ 1,519,686	(37.6%)	$ 2,320,541	(38.2%)
Valuation Salary	$ 2,037,566		$ 4,038,229		$ 6,075,795	

( ) Amounts in parenthesis express contribution as a percentage of payroll

SECTION FOUR:
SUMMARY OF ACTUARIAL ASSUMPTIONS AND COST METHODS

ASSUMPTIONS

Discount (Interest) Rate
Three discount rates were used: 4%, 5%, and 8%.

Claim Costs

Medical

The following monthly costs for medical and prescription drug benefits were used for all plans:

For those not eligible for Medicare: **$477.71**
For those eligible for Medicare: **$541.00**

The medical cost rates are distributed for age and sex at retirement.

Dental

The monthly per member dental cost is **$29.06**.

Vision

The monthly per member dental cost is **$2.00**.

Mortality
The annual probabilities of death are according to the 1994 Group Annuity Mortality Table for Males and Females.

Withdrawal
Representative Withdrawal Rates by age (split by administrative unit):

Age	Service	MERS	Police	Fire
ALL	0	18.00%	15.00%	8.00%
	1	18.00%	13.00%	6.00%
	2	16.00%	10.00%	5.00%
	3	12.00%	7.00%	4.00%
	4	10.00%	5.00%	3.00%
20	5 & over	9.00%		
30		9.00%	5.46%	2.50%
40		5.00%	1.30%	0.60%
50		4.00%	0.65%	0.50%
60		3.00%	0.65%	0.50%

Retirement Rates

Representative Retirement Rates by age are (split by administrative unit):

Service	Police	Fire
20	50%	60%
21	15%	40%
22	15%	40%
23	15%	50%
24	15%	50%
25	15%	50%
26	15%	50%
27	15%	50%
28	15%	50%
29	15%	50%
30	100%	100%

MERS

Age	F(50)	F(55)	F(N)	Without F(50) or F(55) or F(N)
40				22%
41				22%
42				22%
43				22%
44				22%
45				22%
46				22%
47				22%
48				22%
49				22%
50	22%			22%
51	22%			22%
52	22%			22%
53	22%			22%
54	24%			24%
55	18%	18%		18%
56	14%	15%		14%
57	16%	10%		16%
58	18%	15%		18%
59	18%	20%		18%
60	20%	20%	20%	20%
61	24%	24%	24%	24%
62	24%	24%	24%	24%
63	24%	24%	24%	24%
64	27%	27%	27%	27%
65	30%	30%	30%	30%
66	30%	30%	30%	30%
67	30%	30%	30%	30%
68	30%	30%	30%	30%
69	30%	30%	30%	30%
70 and above	100%	100%	100%	100%

Participation

90% of Employees and 30% of spouses were assumed to participate in the plan for all employee groups. Previously waived participants are assumed to become eligible at retirement.

Salary Increases

The assumed rate of salary increases is 3.0%

SECTION FIVE:
PARTICIPANT DATA

Summary as of December 31, 2007

	MERS	Police/ Fire	Total
Active Participants (includes current employees with waivers)	51	63	114
Deferred Vested Participants	1	2	3
Retired Participants	45	87	132
Total	97	152	249

AGE AND SERVICE DISTRIBUTION AS OF DECEMBER 31, 2007

Active Employee Participants

Age Group	Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40+	
Under 20										
20 - 24	8									8
25 - 29	15	1	1							17
30 - 34	5	6	2							13
35 - 39	5	8	6	1						20
40 - 44	4	2	7	11	4					28
45 - 49	1		2	2	6					11
50 - 54		4		2	1					7
55 - 59	3	1	1				1			6
60 - 64		1		1	1					3
65 - 69										0
70 & Over			1							1
Total	41	23	20	17	12	0	1	0	0	114

Average Age: 39.5 years
Average Length of Service: 9.3 years

SECTION SIX:
SUMMARY OF PRINCIPAL PLAN PROVISIONS

Following is a summary which describes in general the eligibility and benefit provisions upon which this valuation has been based.

Eligibility

Employees of the City of Ypsilanti are eligible to receive retiree health care benefits.

AFSCME Members:
Retiree must be 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 have their health insurance through Blue Cross / Blue Shield maintained by the City of Ypsilanti.

IAFF Members:
Employee may retire after completing 20 years of service regardless of age.

Non-Union Employees:
Employee may retire after age 50 under the MERS pension program

Benefit Amount

Retirees and their dependants may elect coverage under the City of Ypsilanti's health program for current active employees. Certain retirees have grandfathered benefit plans. The City pays a portion of the cost of coverage.

Health Care

Retiree Benefits

Service	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%	100%	100%
20 or more	100%	100%	100%	100%	100%

Spouse Benefits

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

Dental & Vision Coverage

City pays 100% of retiree dental and vision coverages

Life Insurance Coverage

City pays for $1,000 of life insurance coverage for retirees. Retirees may elect an additional $4,000 of coverage by paying $.31 per month per $1,000 of coverage.

Retiree Opt-Out

Retirees electing to opt-out of the health care plan are eligible to receive the following amounts in any year they receive coverage from another source.

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

The opt-out benefits are not considered OPEB under GASB Statement No. 45 and are not included in this valuation. They may be required to be accounted for under GASB Statement No. 26.