CITY OF YPSILANTI

ACCOUNTING FOR POST EMPLOYMENT BENEFIT PLANS UNDER GASB #45

May 2009

Table of Contents

SECTION ONE:
GASB45 VALUATION - 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 GASB45 which details how governmental employers account for post retirement benefits other than pension plans. For the City, the effective date of GASB45 is the fiscal year ending after June 30, 2009. This valuation developed retiree liabilities and costs under the statement for the 2008-2009 fiscal period.

Actuarial Methods and Assumptions

Liabilities and costs were developed under the most common actuarial method—entry age normal cost method. 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). A discount rate of 8%/year was combined with a moderate assumed level of medical cost inflation. Assumptions for termination of employment, retirement, plan participation and death were also utilized. Benefit provisions in effect on December 31, 2008 were employed in the calculations.

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 determined using a discount rate of 8% combined with moderate rates of health care cost increases (9% graded down to 5% in 2013 and later). The discount scenario recognizes the funded nature of the program.

The current cash outlay is the minimum employer contribution for the program. Based on the retiree census, the annual pay-as-you-go cost is $633,155 (11% of payroll). The recommended ARC, in the attached exhibit, is $1,192,998 (19.8% of payroll). Since the ARC includes the current cash cost, the added fiscal year cost of GASB45 implementation is the total ARC of $1,192,998 less $633,155 of direct benefit payments less scheduled trust contributions.

Annual Required Contribution
Summary of Fiscal Year Ending
June 30, 2009

Discount Rate:	8.00%
Health Care Trend Rates	9% in 2009 to 5% in 2013 and later

	MERS	Police & Fire	Total
1. Accrued Liability (beginning of year)	$ 3,905,079	$ 8,525,883	$ 12,430,962
2. Actuarial Value of Assets (beginning of year)	$ 366,505	$ 1,048,413	$ 1,414,918
3. Unfunded Liability (1) - (2)	$ 3,538,574	$ 7,477,470	$ 11,016,044
4. Normal Cost	$ 90,848	$ 196,107	$ 286,955
5. Amortization Payment (30 Years)	$ 291,039	$ 615,004	$ 906,043
6. Interest on (4) and (5)	$ 0	$ 0	$ 0
7. Annual Required Contribution (4) + (5) + (6)	$ 381,887	$ 811,111	$ 1,192,998
8. Valuation Payroll	$ 2,051,077	$ 3,977,872	$ 6,028,949

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.

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). The acronym *OPEB* refers to Other Post Employment Benefits and an OPEB plan refers to retirement plans other than pensions. For the City of Ypsilanti (a Statement No. 45 Phase II employer with more than $10 million in annual revenue, but less than $100 million), the effective date is the first fiscal year beginning after December 15, 2007 or fiscal yearend 2009.

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. 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).

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.

Actuarial Funding Method and Assumptions

The Annual Required Contribution (ARC) can be determined under any of six acceptable actuarial methods defined under the GASB standards. For this report, liabilities and annual costs were developed under the most common actuarial methodology – *the entry age normal method.* This method is currently used for many governmental pension plans and is a fairly stable method that is consistent with level percentage of payroll funding.

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 is provided in Section Five 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 the 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 and costs in effect at December 31, 2008.

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 GASB Statement permits the Entry Age Normal 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 and may not be appropriate for the determination of the contribution level or the Plans' funding requirements 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 Statement 45. Determinations for purposes other than meeting employer financial accounting requirements may be significantly different from these.

Respectfully Submitted,

Bernard E. Hartt

5/29/2009

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

Date

SECTION THREE:
RESULTS AND ANALYSIS

Liabilities are summarized by participant status (active, retired), represented/non-represented status and additional breakdowns for pre-65 and post-65 liabilities.

Closed Group Valuation

This valuation has been prepared on a closed group valuation basis, meaning only the existing population has been considered.

Substantive Plan

The current plan of benefits valued was a continuation of coverage of the City's employee group health care plan. Retirees contribute the premium or monthly claims cost amounts applicable for active employees. The value of the subsidy for each participant is based upon the difference between the actuarially adjusted age related costs and the retiree contribution.

Actuarial Cost Method

The Annual Required Contribution (ARC) and actuarial accrued liabilities were developed under the Entry Age Normal method.

Annual Required Contributions

The Annual Required Contribution (ARC) using the Entry Age Normal method for the 2009 fiscal year is $1,192,998 (19.8% of payroll). 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. For the 2009 fiscal year, the annual pay-as-you-go cost is approximately $633,155 (11% of payroll) versus the ARC amount of 19.8% of payroll.

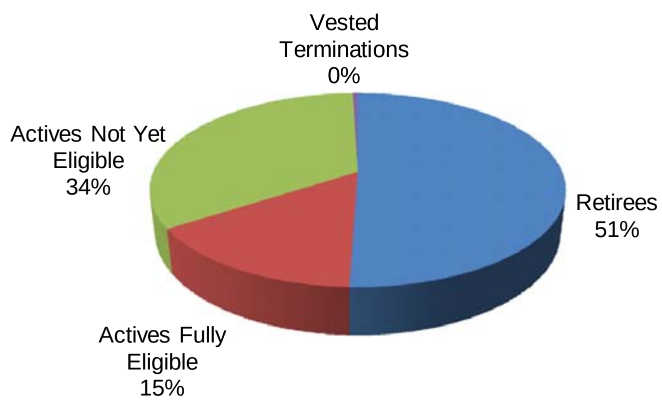
Exhibits

Exhibits 1, 2 and 3 display liability amounts and selected valuation results including the Annual Required Contribution amounts.

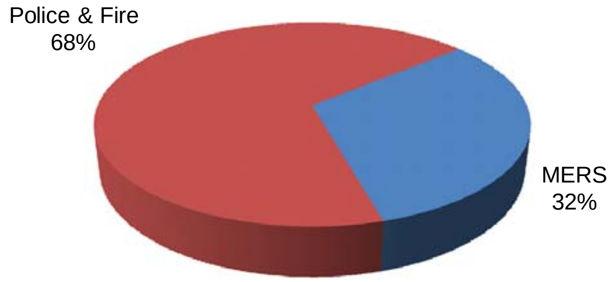
Exhibit 1

Present Value of Future Benefits as of December 31, 2008 for Fiscal Year Ending June 30, 2009

By Employee Status		
Retirees	$	7,373,542
Actives Fully Eligible		2,223,156
Actives Not Yet Eligible		4,928,320
Vested Terminations		67,068
Total	**$**	**14,592,086**



By Represented / Non-Represented		
MERS	$	4,631,110
Police & Fire		9,960,976
Total	**$**	**14,592,086**



By Age of Claimant		
Pre 65 Claims	$	5,927,709
Post 65 Claims		8,664,377
Total	**$**	**14,592,086**

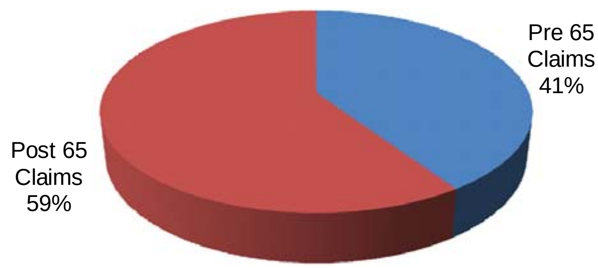
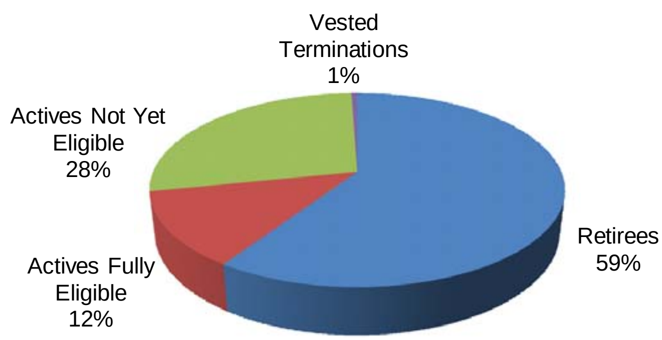


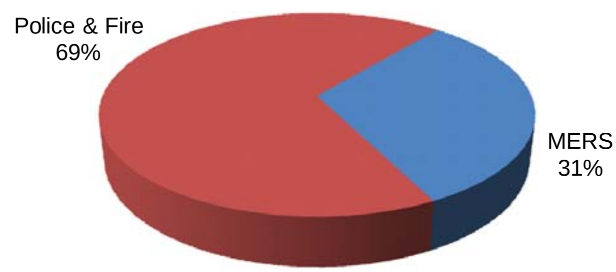
Exhibit 2

Actuarial Accrued Liability (AAL)
as of December 31, 2008 for
Fiscal Year Ending June 30, 2009

By Employee Status		
Retirees	$	7,373,542
Actives Fully Eligible		1,551,334
Actives Not Yet Eligible		3,439,018
Vested Terminations		67,068
Total	**$**	**12,430,962**



By Represented / Non-Represented		
MERS	$	3,905,079
Police & Fire		8,525,883
Total	**$**	**12,430,962**



By Age of Claimant		
Pre 65 Claims	$	4,608,896
Post 65 Claims		7,822,066
Total	**$**	**12,430,962**

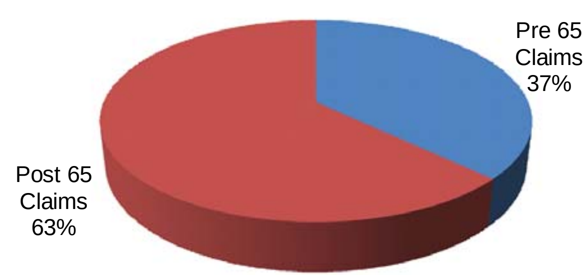


Exhibit 3

Annual Required Contribution
Summary of Fiscal Year Ending
June 30, 2009

Discount Rate:	8.00%
Health Care Trend Rates	9% in 2009 to 5% in 2013 and later

	MERS	Police & Fire	Total
1. Accrued Liability (beginning of year)	$ 3,905,079	$ 8,525,883	$ 12,430,962
2. Actuarial Value of Assets (beginning of year)	$ 366,505	$ 1,048,413	$ 1,414,918
3. Unfunded Liability (1) - (2)	$ 3,538,574	$ 7,477,470	$ 11,016,044
4. Normal Cost	$ 90,848	$ 196,107	$ 286,955
5. Amortization Payment (30 Years)	$ 291,039	$ 615,004	$ 906,043
6. Interest on (4) and (5)	$ 0	$ 0	$ 0
7. Annual Required Contribution (4) + (5) + (6)	$ 381,887	$ 811,111	$ 1,192,998
8. Valuation Payroll	$ 2,051,077	$ 3,977,872	$ 6,028,949

SECTION FOUR:
ANNUAL REPORTING UNDER GASB 45

Annual OPEB COST

The GASB 45 Annual OPEB Cost has these three components:

1) **The Annual Required Contribution Amount is the sum of a, b, and c.**

   a) **Normal Cost** is the portion of the Actuarial Present Value of benefits allocated to the valuation year according to the actuarial cost method.
   b) **Amortization of the Unfunded Actuarial Accrued Liability** is the amount to be amortized over thirty years, of the excess of the Actuarial Accrued Liability over the fair value of assets, both measured at the valuation date.
   c) **Amortization of Gains or Losses** in subsequent years, of the unfunded actuarial accrued liability which may be amortized separately or as part of the annual amortization of the unfunded actuarial accrued liability.

2) **The ARC Adjustment Amount**, an amount which is added / subtracted from the ARC to adjust the annual cost for amounts already accrued and reflected in the beginning of year Net OPEB Obligation.

3) **Interest** for the year at the valuation discount rate on the beginning of year Net OPEB Obligation.

Net OPEB Obligation

The Net OPEB Obligation is accrued on the financial statement as the amount of accumulated OPEB costs which remain unfunded as of the reporting date. For the first reporting period, the OPEB Cost is the ARC, and the year end Net OPEB liability is the OPEB Cost less employer contributions. Exhibits on the following pages illustrate:

Exhibit 4	Components of Net Annual Obligation and Expense
Exhibit 5	Schedule of Contributions, OPEB Costs and Obligations
Exhibit 6	Schedule of Funded Status and Funding Progress
Exhibit 7	Required Supplementary Information

Plan Description

The City of Ypsilanti provides the continuation of health care benefits and life insurance to employees, who retire from the City. Employees who terminate after reaching retirement eligibility in the plan are eligible to elect to continue their health care coverage by paying the monthly premium rate. Because the actuarial cost of health benefits for retirees exceeds the average amount paid by retirees, the additional cost is paid by the City and is the basis for the OPEB obligation accounted for under GASB 45.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution. The ARC (Annual Required Contribution) represents the normal cost each year and an amount to amortize the unfunded actuarial liability over thirty years.

Exhibit 4 Components of Net OPEB Obligation and Expense

The following table shows the annual OPEB costs for the year, the amount contributed to the plan and changes in the net OPEB obligation. The *Net OPEB Obligation* is the amount entered as of year end as the net liability for other post employment benefits.

Item	Amount as of 6/30/2009		
	MERS	Police & Fire	Total
a. Annual Required Contribution	$ 381,887	$ 811,111	$1,192,998
b. Interest on net OPEB obligation:	0	0	0
c. Adjustment to annual required contribution	0	0	0
d. Annual OPEB cost (expense) (a + b + c)	$ 381,887	$ 811,111	$1,192,998
e. Contributions made	(202,342)	(430,813)	(633,155)
f. Increase in net OPEB obligation	179,545	380,298	559,843
g. Net OPEB obligation – beginning of year	0	0	0
h. Net OPEB obligation – end of year (f + g)	**$ 179,545**	**$ 380,298**	**$ 559,843**

Exhibit 5 Schedule of Contributions, OPEB Costs and Net Obligations

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/09	$1,192,998	53.1%	$559,843

Funded Status and Funding Progress

As of December 31, 2008, the actuarial accrued liability for benefits was $12,430,962. The covered payroll was approximately $6,028,949, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 183%.

Actuarial Method and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan members) and include the benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members.

In the actuarial valuation for the fiscal year ended June 30, 2009, the entry age normal cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 9% initially, reduced by decrements to an ultimate rate of 5% after four years. Both rates included a 2.5% inflation assumption. The Unfunded Accrued Actuarial Liability is being amortized as a level dollar amount over 30 years.

Exhibit 6 Schedule of Funded Status and Funding Progress

The funded status of the plan as of June 30, 2009:

	MERS	Police & Fire	Total
1. Actuarial Accrued Liability (AAL)	$ 3,905,079	$ 8,525,883	$ 12,430,962
2. Actuarial Value of Assets	366,505	1,048,413	1,414,918
3. Unfunded Actuarial Accrued Liability (UAAL)	$ 3,538,574	$ 7,477,470	$ 11,016,044
4. Funded Ratio (2) / (1)	9.4%	12.3%	11.4%
5. Covered Payroll (Active Plan Members)	$ 2,051,077	$ 3,977,872	$ 6,028,949
6. UAAL as a Percentage of Covered Payroll (3) / (5)	172.5%	188.0%	182.7%

Exhibit 7 Required Supplementary Information

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll
6/30/09	$1,414,918	$12,430,962	$11,016,044	11.4%	$6,028,949

SECTION FIVE:
SUMMARY OF ACTUARIAL ASSUMPTIONS AND COST METHOD

ASSUMPTIONS

Discount (Interest) Rate

A discount rate of 8% was used.

Claim Costs

Medical

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

For those not eligible for Medicare: $524.28
For those eligible for Medicare: $347.85

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

Dental

The monthly per member dental cost is $30.50.

Vision

The monthly per member dental cost is $5.00.

Mortality

Pobabilities 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%

Spousal Information

70% of employees were assumed to have spouses. Females were assumed to be 3 years younger than males.

Health Care Cost Inflation Rates

Period	Inflation Rate
2009	9.0%
2010	8.0%
2011	7.0%
2012	6.0%
2013 and after	5.0%

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 SIX:
PARTICIPANT DATA

Summary as of December 31, 2008

	MERS	Police/ Fire	Total
Active Participants (includes current employees with waivers)	47	57	104
Deferred Vested Participants	1	2	3
Retired Participants	40	87	127
Total	88	146	234

AGE AND SERVICE DISTRIBUTION AS OF DECEMBER 31, 2008

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	4									4
25 - 29	14	1								15
30 - 34	5	4	3							12
35 - 39	4	8	6	1						19
40 - 44	2	2	5	9	2					20
45 - 49	2	2	2	4	6					16
50 - 54		2	1	2	3					8
55 - 59	2	2	1				1			6
60 - 64		1		1	1					3
65 - 69										0
70 & Over			1							1
Total	33	22	19	17	12	0	1	0	0	104

Average Age: 40.6 years
Average Length of Service: 10.4 years

SECTION SEVEN: SUMMARY OF PRINCIPAL PLAN PROVISIONS

Eligibility

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%	50%	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

* 20 Years only

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 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.