City of Dover, Delaware
GASB 45 Results For 2008/09

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Retiree Health Plan Provisions

Retiree Health Eligibility for Subsidy	Varies by (1) Civilians and Sworn Officers, (2) date of hire and (3) Union
Coverage	Lifetime coverage
Benefits Provided	Health coverage (retiree and spouse) and Medicare Part B premium reimbursement (retiree only)
Plan Financing	The City participates in the State's health plan as a non-state employer. Premiums are set by the state and updated annually. No reconciliation is made between premiums and actual claims paid. The City's premiums are not experience-rated.
City Explicit Subsidy	Retirees have no contribution requirements. Spouses pay 25% of monthly premium; IBEW employees hired after July 1986 will pay 100% of the monthly premium. Part B premium reimbursements are being phased out for new retirees. Existing retirees were assumed to retain the reimbursement.
Spouse Coverage	Coverage after death of retiree or active employee eligible to retire

The Cost of Retiree Health Care

How premium rates are determined







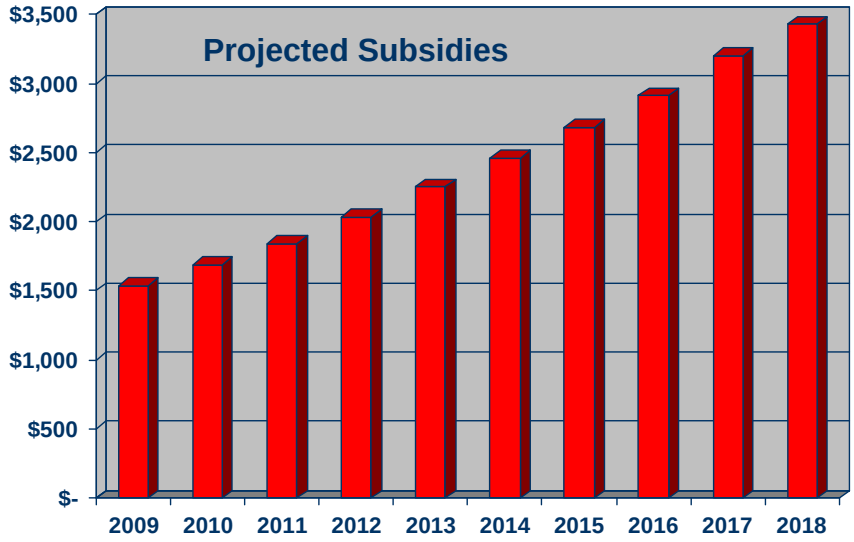
Divided by



Monthly Premiums	Retiree Only	Retiree and Spouse
Blue Care	$ 515	$ 1,078
Comp. PPO	$ 550	$ 1,136
Medicfill (Medical only)	$ 183	$ 365
Medicfill (Rx only)	$ 197	$ 394

The Cost of Retiree Health Care

- Explicit subsidy
  - 100% subsidy for retirees and 75% subsidy for spouses
  - Medicare Part B premium reimbursement
- No implicit subsidy based on current arrangement
- Expected cash costs for 2008/09
  - $1,536,000 explicit subsidies
  - $ 0 implicit subsidies
  - $1,536,000 total subsidies



Key Actuarial Assumptions

- Key assumptions
  - When do employees quit and retire
  - How long do they live after retirement
  - What assets are being used to pay health premiums
    - 4.5% return if using current assets
    - 7.5% return if GASB 45 trust is setup and implement long-term investment strategy
  - How many actually elect to stay on with the City
    - Using 100% participation since coverage is heavily subsidized
  - 10-year funding strategy to reach fully-funded status

Key Actuarial Assumptions

- Key assumptions
  - Health Care Trend Rate (how fast premiums go up)

	Pre-65	Post-65		
FYE	Blended	Medical	Rx	Part B
2009	9.0%	8.0%	10.0%	7.0%
2010	9.0%	8.0%	10.0%	6.5%
2011	8.5%	7.5%	9.5%	6.0%
2012	8.5%	7.5%	9.0%	5.5%
2013	8.0%	7.0%	8.5%	5.0%
2014	7.5%	7.0%	8.0%	4.5%
2015	7.0%	6.5%	7.5%	4.5%
2016	6.5%	6.0%	7.0%	4.5%
2017	6.0%	5.5%	6.5%	4.5%
2018	5.5%	5.0%	6.0%	4.5%
2019	5.2%	4.5%	5.5%	4.5%

GASB 45 Accounting Treatment

- Current treatment (pay-as-you-go basis)
  - Health care expense = Premiums paid less contributions received
  - No distinction between active and retired costs. The only number that matters is the total.
  - No year-end obligation under pay-as-you-go basis because

    Cash Spent (Credit) = Expense (Debit)

    Year-end Liability = $0

Debit	Credit
Record expense equal to cash spent	Spend cash to pay premiums

GASB 45 Accounting Treatment

- Summary of Actuarial Liabilities as of July 1, 2008 based on current health plan arrangement

	Current Retirees	Future Retirees	Total
Retiree Liabilities	**$ 27,269**	**$ 21,000**	**$ 48,269**
Spouse Liabilities	**$ 7,088**	**$ 4,860**	**$ 11,948**
Part B Reimbursements	**$ 3,556**	**$ 524**	**$ 4,080**
Total	**$ 37,913**	**$ 26,384**	**$ 64,297**

Results are in 000's

GASB 45 Accounting Treatment

1 Under GASB 45 must disclose the actuarial present value of accrued liabilities in a footnote disclosure.

Does not impact balance sheet or income statement

Required Supplementary Information	
Actuarial Accrued Liability	$ 64,297,000
Assets Set Aside	$ 0
Unfunded Actuarial Accrued Liability	$ 64,297,000
Funded Ratio	0.0%
Total Payroll	$ 18,162,000
Unfunded as a % of Payroll	354.0%

GASB 45 Accounting Treatment

#2 Income statement impact

- Being asked to record expense today for money to be spent later

Pay-as-you-go Accounting

Debit	Credit
1. Active health costs	4. Cash on actives
2. Retiree health costs $1,536,000	5. Cash on retirees $1,536,000
3. Total health expense = 1 + 2	6. Total cash spent = 4 + 5

GASB 45 Accrual Accounting

Debit	Credit
1. Active health expense	5. Cash on active
2. Retiree health costs $1,536,000	6. Cash on retirees $1,536,000
3. Additional GASB expense for future subsidies $4,692,000	7. Spend $315,000 in cash on prefunding
4. Total retiree health expense $6,228,000 = ARC = 1 + 2 + 3	Total credits = 5 + 6 + 7 (short $4,377,000)

ARC is based on year-1 of 10-year strategy

GASB 45 Accounting Treatment

#3 Balance sheet impact

- Recognize an obligation caused by “contribution shortfall” from income statement

Balance Sheet

Assets	**Liabilities** OPEB Obligation increases liabilities by $4,377,000
	Fund Balance Fund Balance is reduced by $4,377,000

Prefunding with an OPEB Trust

- Pre-funding is not a requirement for compliance with GASB 43/45
- Bond rating agencies have indicated that in order to maintain good credit quality, it will be important to
  - Demonstrate a strategy in dealing with their OPEB obligations
  - Making steady progress toward reaching the actuarially determined annual contribution level.
- If the decision to prefund is made, then an OPEB Trust should be established to hold the build-up of assets.
- Each entity must assess the relative benefits associated with its chosen funding strategy.
- For many the most optimal vehicle for pre-funding may be the creation of an IRS Code Section 115 Irrevocable Trust

Prefunding with an OPEB Trust

- The Trust must, at a minimum, have the following protections:
  - A legally separate entity under the control of a trustee or board of trustees.
  - Employer no longer has ownership or control of the assets; the Trust is IRREVOCABLE.
  - Trust monies are dedicated to OPEB liabilities and may not be diverted by the employer to other purposes.
  - Legally protected from the employer's and administrator's creditors.

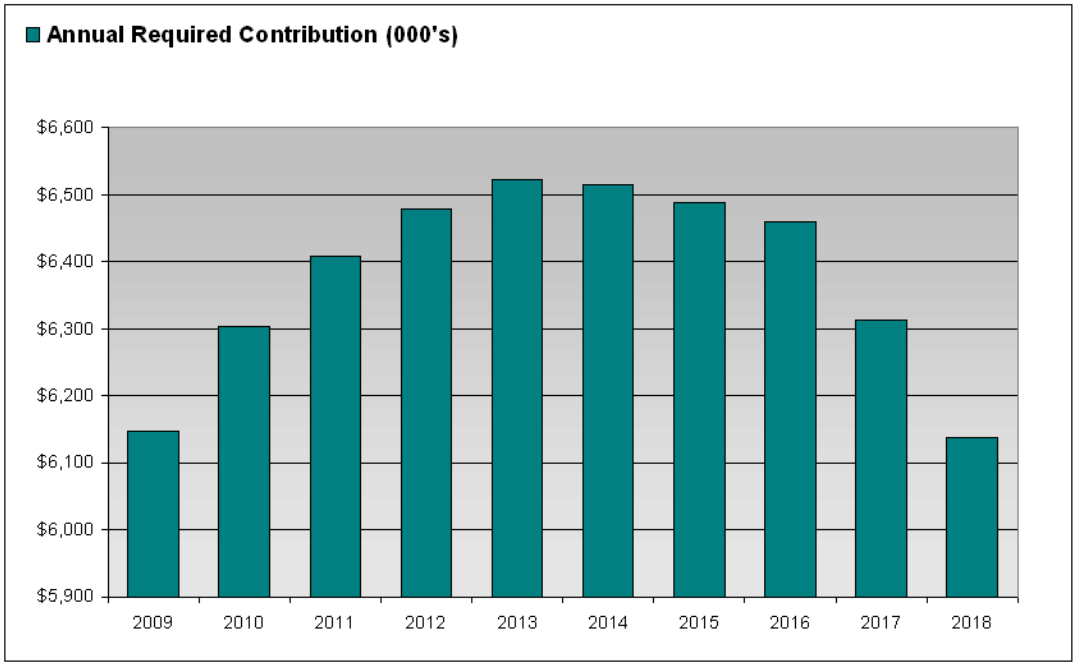
- The existence of a Trust with broad investment powers and a long-term contribution policy is the basis for using a long-term investment rate of return, in the range of 7-9%.

Prefunding with an OPEB Trust

Measure	No Pre-funding	10-year Phase-in	Full Pre-funding
Interest Rate	4.5%	4.8%	7.5%
Annual OPEB Cost	$ 6,420,000	$ 6,228,000	$ 4,688,000
Cash Contribution	(1,536,000)	(1,851,000)	(4,688,000)
End of Year OPEB Obligation	$ 4,884,000	$ 4,377,000	$ 0
Current Year Retiree Premiums	$ (1,536,000)	$ (1,536,000)	$ (1,536,000)
End of Year Asset	$ 0	$ 327,000	$ 3,268,000
Actuarial Accrued Liabilities (AAL) as of July 1, 2008	$ 67,588,000	$ 64,297,000	$ 41,762,000

Prefunding with an OPEB Trust

Fiscal year ending	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Phase-in contributions	10.0%	20.0%	30.0%	40.0%	50.0%	60.0%	70.0%	80.0%	90.0%	100.0%
Additional non-repeating contribution	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Projected net asset returns	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Initial Year 1 Assets	$ -									
Policy Discount Rate	4.80%	5.10%	5.40%	5.70%	6.00%	6.30%	6.60%	6.90%	7.20%	7.50%



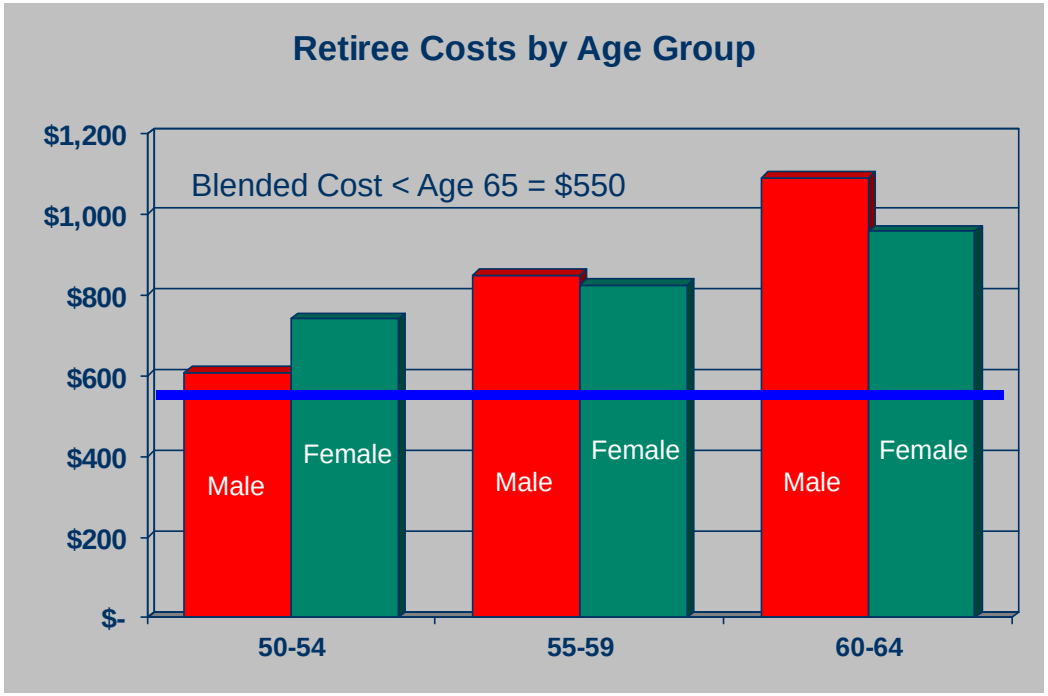
FYE	Chart Input	AAL BOY	FMV EOY
2009	$6,148	$ 63,831	$ 319
2010	$6,304	$ 64,031	$ 1,010
2011	$6,408	$ 64,156	$ 2,123
2012	$6,479	$ 64,719	$ 3,677
2013	$6,523	$ 65,408	$ 5,682
2014	$6,516	$ 65,931	$ 8,155
2015	$6,488	$ 66,516	$ 11,103
2016	$6,459	$ 67,414	$ 14,517
2017	$6,314	$ 68,192	$ 18,287
2018	$6,137	$ 68,736	$ 22,467

FYE	PAYGO	Add. Cont.	Total Cont.
2009	$ 1,536	$ 308	$ 1,844
2010	$ 1,689	$ 643	$ 2,332
2011	$ 1,842	$ 1,001	$ 2,843
2012	$ 2,035	$ 1,345	$ 3,380
2013	$ 2,250	$ 1,668	$ 3,918
2014	$ 2,460	$ 1,974	$ 4,434
2015	$ 2,681	$ 2,253	$ 4,934
2016	$ 2,911	$ 2,490	$ 5,401
2017	$ 3,201	$ 2,585	$ 5,786
2018	$ 3,429	$ 2,708	$ 6,137

Explanation of Implicit Subsidy

- Cost of health coverage varies by age (defines implicit subsidy)





Impact of Participating in State Health Plan

- As part of the State Health Plan
  - Plan operates as a community-rated plan and thus there is no GASB implicit subsidy

- By becoming self-insured or fully-insured (“stand on your own”)
  - There will be GASB implicit subsidy
  - Premium rates and benefit payment expenses may be lower or higher
  - The City will have more control over plan designs

Medicare Part D Options

- Change prescription drug coverage to secondary (some Rx coverage)
- Eliminate prescription drug (no Rx coverage)
- Any change would require State approval or for City to “stand on its own”
- Lose Part D tax subsidy money (about $ 500/yr for each beneficiary)

	Primary Rx coverage	No Rx coverage
Actuarial Accrued Liabilities (AAL)	$ 64,297,000	$ 41,239,000
Annual Required Contribution (ARC)	$ 6,228,000	$ 3,957,000

Medicare Part D Options

Illustration of Changing Rx Coverage for Medicare Retirees

	Stay Rx Primary	Change to Rx Secondary	No Rx Coverage
Monthly premium	$ 197/mo	$ 60/mo	$ 0/mo
Part D tax subsidy	$ 42/mo	$ 0/mo	$ 0/mo
Net City premium	$ 155/mo	$ 60/mo	$ 0/mo

Other Methods to Manage Liability

- Do nothing
  - Depends on impact of credit rating

- Traditional and newer methods
  - Raise retiree contributions
  - Reduce benefits
  - Change to single employer health plan
  - Medicare Advantage fully insured plan for Medicare retirees
  - Switch to individual health accounts for current employees