

**KENT COUNTY RETIREE HEALTH CARE PLAN**  
ACTUARIAL VALUATION REPORT  
DECEMBER 31, 2013

# TABLE OF CONTENTS

---

<u>Section</u>	<u>Page Number</u>	
	--	Cover Letter
		<b>EXECUTIVE SUMMARY</b>
	1-2	Executive Summary
<b>A</b>		<b>VALUATION RESULTS</b>
	1	Development of the Annual Required Contribution
	2	Determination of Unfunded Actuarial Accrued Liability
	3	Direct and Indirect Components of Actuarial Accrued Liability and Normal Cost
	4	Comments
<b>B</b>		<b>RETIREE PREMIUM RATE DEVELOPMENT</b>
	1-3	Retiree Premium Rate Development
<b>C</b>		<b>SUMMARY OF BENEFIT PROVISIONS</b>
	1-4	Summary of Benefits
<b>D</b>		<b>SUMMARY OF VALUATION DATA</b>
	1	Active Members by Attained Age and Years of Service
	2	Retired Members by Attained Age
	3	Asset Information
<b>E</b>		<b>ACTUARIAL COST METHOD AND ACTUARIAL ASSUMPTIONS</b>
	1	Actuarial Cost Method
	2-7	Actuarial Assumptions
<b>F</b>		<b>DISCLOSURES REQUIRED BY STATEMENTS NO. 43 AND NO. 45 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD</b>
	1	Required Supplementary Information
	2	Schedule of Funding Progress
<b>Appendix A</b>		<b>OVERVIEW</b>
	1-2	GASB Background and Standards
	3-4	Glossary

May 20, 2014

Mr. Stephen Duarte  
Fiscal Services Director  
Kent County Retiree Health Care Plan  
300 Monroe Avenue, N.W.  
Grand Rapids, Michigan 49503-2222

Dear Mr. Duarte:

Submitted in this report are the results of an Actuarial Valuation of the assets and benefit values associated with the employer financed retiree health benefits provided by Kent County. The date of the valuation was December 31, 2013, from which the Annual Required Contribution was developed for the fiscal year January 1, 2015 through December 31, 2015. This report was prepared at the request of Kent County.

The actuarial calculations were prepared for purposes of complying with the requirements of Statement 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 County's financial reporting requirements may produce significantly different results.

The actuarial methods and assumptions used in the actuarial valuation are summarized in Section C of this report. The assumptions are established by the Board after consulting with the actuary.

This report should not be relied on for any purpose other than those described above. It was prepared at the request of the Board and is intended for use by the County and those designated or approved by the Board. This report may be provided to parties other than the County in its entirety and only with the permission of the Board.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

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

Mr. Stephen Duarte

Page 2

May 20, 2014

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

The signing actuaries are independent of the plan sponsor.

Randall J. Dziubek is a Member of the American Academy of Actuaries (MAAA) and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Respectfully submitted,



Randall J. Dziubek  
ASA, EA, MAA



David L. Hoffman

RJD:ah

---

## **EXECUTIVE SUMMARY**

---

## EXECUTIVE SUMMARY

---

### Annual Required Contribution

This report presents the annual required contribution to be recognized by the plan sponsor for purposes of complying with the accounting requirements of Governmental Accounting Standards Board Statement No. 45.

The Annual Required Contribution (ARC) for the fiscal year beginning January 1, 2015 is \$3,318,618 or 3.35% of projected payroll. Actual claims and premiums paid on behalf of retirees from outside of the plan assets 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 \$3,072,364 for the fiscal year beginning January 1, 2015. This amount reflects the retiree only premium rates and the implicit subsidy for retirees and covered spouses. The expected employer portion is comprised of \$1,304,767 in County benefits to retirees and \$1,767,597 in retiree health care costs in excess of the premiums charged.

If the employer portion of premiums for existing retirees is paid from existing plan assets, the County can still treat the associated implicit subsidy as contributions toward the ARC. Therefore, if the actual premiums and flat dollar subsidies paid from plan assets turn out to be equal to the estimate of \$1,304,767 and the County contributes \$1,551,021 (the difference between the total ARC of \$3,318,618 and \$1,767,597) to the trust, then the ARC will be met and the NOO will be zero.

Per capita costs and illustrative rates were developed from the premium, claims and enrollment data provided to us. The process used to determine these per capita costs and the results of these calculations are provided in Section B.

## EXECUTIVE SUMMARY

---

### **Additional OPEB Reporting Requirements**

In addition to the annual OPEB cost described on the previous page, employers 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 Statement No. 45.

The requirements for determining the employer's contributions in relation to the ARC are described in paragraph 13 g. of Statement No. 45. Additional information required to be disclosed in the employer's financial statements is detailed in paragraphs 24 through 27 of Statement No. 45.

### **Liabilities and Assets**

The present value of all benefits expected to be paid to current plan members as of December 31, 2013 is \$58,971,806. The actuarial accrued liability, which is the portion of the \$58,971,806 attributable to service accrued by plan members as of December 31, 2013, is \$50,174,616. As of December 31, 2013, there are \$15,178,339 in valuation assets available to offset the liabilities of the plan.

The funded status of the plan, which is the ratio of plan assets to actuarial accrued liability, as of December 31, 2013 is 30.3%. This is an increase from 25.7% as of December 31, 2012.

### **Excise Tax**

The Patient Protection and Affordable Care Act includes an excise tax on high cost (Cadillac) health plans beginning in 2018. The excise tax is 40% of costs above a threshold. Possible excise taxes beginning in 2018 have not been reflected in the results presented in this report.

---

**SECTION A**  
VALUATION RESULTS

---

**DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTION  
FOR OTHER POSTEMPLOYMENT BENEFITS  
FISCAL YEAR BEGINNING JANUARY 1, 2015**

---

Contributions for	Development of the Annual Required Contribution for January 1, 2015 - December 31, 2015
Normal Cost	
Normal Retirement	\$ 1,099,602
Early Retirement	128,782
Death-in-Service	0
Disability	69,344
Future Refund of Member Contributions	<u>0</u>
Total Normal Cost	\$ 1,297,728
Annual Active Member Contribution	0
Employer Normal Cost	\$ 1,297,728
Amortization of Unfunded Actuarial Accrued Liabilities (Amortized over 30 years)	\$ 2,020,890
<b>Annual Required Contribution (ARC)</b>	<b>\$ 3,318,618</b>
Projected Payroll for the Fiscal Year Beginning January 1, 2015	<b>\$ 99,063,242</b>
<b>ARC as a Percentage of Projected Payroll</b>	<b>3.35%</b>
ARC Per Active Participant (1,607 Actives)	\$ 2,065

The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll over a period of 30 years. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with Governmental Accounting Standards Board (GASB) requirements.

**DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY  
AS OF DECEMBER 31, 2013**

---

A. Present Value of Future Benefits	
1. Retirees and Beneficiaries	\$21,384,341
2. Vested Terminated Members	0
3. Active Members	<u>37,587,465</u>
Total Present Value of Future Benefits	\$58,971,806
B. Present Value of Future Employer Normal Costs	8,797,190
C. Present Value of Future Contributions from Current Active Members	0
D. Actuarial Accrued Liability (A.-B.-C.)	50,174,616
E. Actuarial Value of Assets	15,178,339
F. Unfunded Actuarial Accrued Liability (D.-E.)	<b>\$34,996,277</b>
G. Funded Status (E./D.)	30.3%

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.

**DIRECT AND INDIRECT COMPONENTS OF ACTUARIAL ACCRUED  
LIABILITY AS OF DECEMBER 31, 2013 AND NORMAL COST PROJECTED  
TO FISCAL YEAR ENDING DECEMBER 31, 2015**

---

Group	Actuarial Accrued Liability			Normal Cost		
	Indirect	Direct	Total	Indirect	Direct	Total
Active	\$ 17,756,313	\$ 11,033,962	\$ 28,790,275	\$ 861,850	\$ 435,878	\$ 1,297,728
Pre-65 Retirees	7,386,178	2,573,973	9,960,151			
Post-65 Retirees		11,424,190	11,424,190			
Total	\$ 25,142,491	\$ 25,032,125	\$ 50,174,616	\$ 861,850	\$ 435,878	\$ 1,297,728

For this purpose, “direct” costs represent the plan provided employer subsidy (e.g., \$300/mo). “Indirect” costs represent additional employer costs due to the difference between the total cost of retiree benefits and the portion covered by the sum of “direct” costs and retiree contributions.

## COMMENTS

---

**COMMENT A:** Our understanding is that Kent County intends to make annual contributions equal to or greater than the Annual Required Contribution. Therefore, we have calculated the liability and the resulting ARC using an assumed investment return of 7.5% as allowed under GASB. This rate is subject to auditor approval. If the County chooses to pre-fund with contributions less than the ARC, Governmental Accounting Standard Board (GASB) requires lowering the assumed investment return on assets. Lowering the assumed investment return would considerably increase the Net OPEB Obligation (NOO) that is disclosed on the employers' financial statement.

**COMMENT B:** The ARC shown in this report has been calculated to increase at the same rate as the projected increase in active member payroll (4.0% per year).

**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 Statements No. 43 and No. 45. A shorter amortization period would result in a higher ARC.

**COMMENT D:** Retirees who are currently waiving coverage through the County are assumed to continue waiving coverage indefinitely.

**COMMENT E:** If the employer portion of premiums for existing retirees is paid from existing plan assets, the County can still treat the associated implicit subsidy as contributions toward the ARC. Therefore, if the actual premiums and flat dollar subsidies paid from plan assets turn out to be \$1,304,767 and the County contributes \$1,551,021 (the difference between \$3,318,618 and \$1,767,597) to the trust, then the ARC will be met and the NOO will be zero.

**COMMENT F:** Since the previous valuation there were changes to demographic assumptions based on an Experience Study for the period beginning January 1, 2008 and ending December 31, 2012. Please see section E for detailed assumption information.

---

**SECTION B**

RETIREE PREMIUM RATE DEVELOPMENT

---

## **RETIREE PREMIUM RATE DEVELOPMENT**

---

For the self-insured plans, initial premium rates were developed separately for each class (pre-65 and post-65). The rates were calculated by using actual claims and exposure data for the period of January 2011 through December 2013, plus the load for administration fees. The self-insured medical and prescription drug data were provided by the County. Prescription drug claims and the medical claims were analyzed separately since they exhibit different trends and claim payment patterns. Prescription drug claims are also split between pre-65 and post-65 participants since claim costs between these segments is very significant. Using appropriate assumptions, the medical data is split between the pre-65 and post-65 participants since Medicare is available for the post-65 participants and has a significant impact on the claim experience.

For the fully insured plans, initial premium rates were developed for the two classes of retirees (pre-65 and post-65). The fully-insured rates provided by Kent County were utilized to determine the appropriate per capita costs. 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 active employees and retirees to reflect this implicit rate subsidy for the retirees. For the post-65 retirees, the fully-insured premium rate is used as the basis of the initial per capita cost without adjustments since the rate reflects the demographics of the post-65 retiree group.

The claims experience was better than expected leading to lower than expected self-insured medical per capita costs. Fully insured premiums increased less than expected as well. These two elements have led to relatively low increases in the per capita rates used in the valuation.

The per capita costs shown on the following page are the weighted average costs of the fully-insured and self-insured premiums based on the actual enrollment by plan as of the valuation date.

## **RETIREE PREMIUM RATE DEVELOPMENT**

---

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 costs more accurately reflect the health care utilization and cost at that age.

The tables below show the resulting medical and prescription drug one-person monthly premiums at select ages. The premium (or per capita costs) rates shown below reflect the use of age grading.

<b>For Those Not Eligible for Medicare</b>		
<b>Age</b>	<b>Male</b>	<b>Female</b>
45	\$ 457.89	\$599.46
50	619.48	701.91
55	809.65	832.25
60	1,017.16	977.71

<b>For Those Eligible for Medicare</b>		
<b>Age</b>	<b>Male</b>	<b>Female</b>
65	\$248.67	\$228.35
70	286.56	257.48
75	318.34	282.12

## **RETIREE PREMIUM RATE DEVELOPMENT (CONCLUDED)**

---

The undersigned is a Member of the American Academy of Actuaries (MAAA) and meets the Qualification Standards of the American Academy of Actuaries to certify the per capita retiree health care rates shown on the previous page.

  
\_\_\_\_\_

5/20/2014

James E. Pranschke, FSA, MAAA

Date

---

## **SECTION C**

### **SUMMARY OF BENEFIT PROVISIONS**

---

# **SUMMARY OF BENEFIT PROVISIONS AS OF DECEMBER 31, 2013**

---

## **PLAN PARTICIPANTS**

Members of Kent County with continued employee/retiree participation in employer sponsored health care plans are eligible to receive retiree health care benefits.

## **HEALTH CARE BENEFIT PROVIDED**

<b>Pension Group</b>	<b>OPEB Group</b>	<b>Monthly Flat Dollar Subsidy Amount</b>
35	POLC – Captains/ Lieutenants	\$350
11	APAA – Prosecuting Attorneys	\$300
12	POLC – Court Reporters	\$300
020 & 022	UAW Courts/ General	\$300
55	Teamsters - Parks	\$300
50	Teamsters - PHN	\$300
31	POAM	\$350
30	KCDSA	\$350
60	MPP	\$300
65	Judges	\$300
70	Elected Officials	\$300
75	Commissioners	\$300
60	Non- Exempt MPP	\$300
17	Circuit Court Referees	\$300
25	Airport Command Officers	\$300

Subsidy prorated for service less than 25 years.

## **NORMAL RETIREMENT ELIGIBILITY**

Age 60 with 5 years of service or 25 years of service regardless of age.

For members hired on or after January 1, 2011, age 62 with 5 years of service or age 60 (age 55 for Captains/Lieutenants) with 25 years of service, for the following groups: MPP, UAW (all), Court Reporters, Teamsters-PHN, Prosecuting Attorneys, Judges, Elected Officials, and Commissioners.

For members hired on or after January 1, 2012, age 62 with 5 years of service or age 60 with 25 years of service, for the following groups: Teamsters-Parks, Airport Command Officers Association, and Circuit Court Referees.

For KCDSA members hired on or after January 1, 2013, age 62 with 5 years of service or age 55 with 25 years of service.

# **SUMMARY OF BENEFIT PROVISIONS AS OF DECEMBER 31, 2013**

---

## **EARLY RETIREMENT ELIGIBILITY**

Members who retire at age 55 or older with 15 or more years of service are eligible for the flat dollar subsidy above, pro-rated for service less than 25 years.

## **DEFERRED RETIREMENT ELIGIBILITY**

Retirees who terminate employment prior to eligibility for early or normal retirement are not eligible for retiree health care benefits.

## **DUTY DISABILITY ELIGIBILITY**

Employees who retire under a duty disability retirement are immediately eligible for full subsidy. The County pays a pro-rated amount of the flat dollar subsidy on page C-1 for groups 35, 60, 65, 70 and 75.

## **NON-DUTY DISABILITY ELIGIBILITY**

Members who become disabled with ten or more years of service will receive the flat dollar on page C-1, pro-rated for service less than 25 years.

## **DUTY AND NON-DUTY DEATH-IN-SERVICE ELIGIBILITY**

Survivors of employees who become deceased while employed are not eligible for retiree health care benefits.

## **BENEFIT FOR SPOUSES OF RETIRED MEMBERS**

Spouses of retired employees are eligible to purchase health care through the County. Surviving spouses of deceased retirees are also eligible to purchase health care through the County if receiving a pension benefit from the Kent County Retirement Plan.

## **NON-MEDICARE AND MEDICARE-ELIGIBLE PROVISIONS**

Retiree and spouse are required to enroll in Medicare once eligible. Retiree and spouse pay the Medicare Part B premiums.

## **VISION INSURANCE ELIGIBILITY**

The County offers a fully insured retiree vision plan to retirees. Retirees pay full cost of premiums.

## **DENTAL AND LIFE INSURANCE ELIGIBILITY**

The County does not offer dental or life insurance coverage for retirees or their dependents.

*This is a brief summary of the Kent County 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.*

**DESIGNATED MPP PARKS UNIT MEMBERS  
SUMMARY OF BENEFIT PROVISIONS AS OF DECEMBER 31, 2013**

---

**PLAN PARTICIPANTS**

Designated Members of Kent County MPP Parks Bargaining Unit with continued employee/retiree participation in employer sponsored health care plans are eligible to receive retiree health care benefits.

**HEALTH CARE BENEFIT PROVIDED**

The County pays 90% of the retiree health care premiums for eligible retirees and spouse named at retirement. Dental and Drug coverage ceases at age 65.

**NORMAL RETIREMENT ELIGIBILITY**

Members are eligible for retiree health care at age 55 with 20 years of service or at age 55 if the sum of age and service is 75 or greater.

**EARLY RETIREMENT ELIGIBILITY**

Members who retire under early retirement are eligible for a reduced benefit.

<b><u>Eligibility</u></b>	<b><u>Benefit paid by County</u></b>
age 55 and service sum to 70-74	75% of premium
age 55 and service sum to 65-69	50% of premium

**DEFERRED RETIREMENT ELIGIBILITY**

Retirees who terminate employment prior to eligibility for early or normal retirement are not eligible for retiree health care benefits.

**DUTY DISABILITY ELIGIBILITY**

Employees who retire under a duty disability retirement are immediately eligible. The County pays a pro-rated amount of the flat dollar subsidy on page C-1.

**NON-DUTY DISABILITY ELIGIBILITY**

Subsidy amount of \$300 is pro-rated based on years of service.

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

Survivors of employees who become deceased while employed are not eligible for retiree health care benefits.

**DESIGNATED MPP PARKS UNIT MEMBERS**  
**SUMMARY OF BENEFIT PROVISIONS AS OF DECEMBER 31, 2013**

---

**BENEFIT FOR SPOUSES OF RETIRED MEMBERS**

Spouses of retired employees are eligible to purchase health care through the County. Surviving spouses of deceased retirees are also eligible to purchase health care through the County if receiving a pension benefit from the Kent County Retirement Plan.

**NON-MEDICARE AND MEDICARE-ELIGIBLE PROVISIONS**

Retiree and spouse are required to enroll in Medicare once eligible. Retiree and spouse pay the Medicare Part B premiums.

**DENTAL ELIGIBILITY**

The County provides 100% paid dental until the age of 65.

**VISION INSURANCE ELIGIBILITY**

The County offers a fully insured retiree vision plan to retirees. Retirees pay full cost of premiums.

**LIFE INSURANCE ELIGIBILITY**

The County does not offer life insurance coverage for retirees or their dependents

*This is a brief summary of the Kent County provisions for the designated MPP Parks Unit. In the event that any description contained herein differs from the actual eligibility or benefit, the appropriate employee contract or governing document will prevail.*

---

## **SECTION D**

### **SUMMARY OF VALUATION DATA**

---

**TOTAL ACTIVE MEMBERS AS OF DECEMBER 31, 2013**  
**BY ATTAINED AGE AND YEARS OF SERVICE**

---

Attained Age	Years of Service to Valuation Date							Totals	Valuation Payroll
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	
20-24	8	1						9	\$ 277,206
25-29	67	29						96	4,201,790
30-34	48	70	42	1				161	8,601,843
35-39	41	59	102	29	1			232	13,209,158
40-44	29	27	100	110	18			284	16,848,508
45-49	27	24	54	77	55	12		249	14,910,624
50-54	20	32	54	51	54	26	4	241	14,178,069
55-59	11	13	37	39	45	17	14	176	10,370,261
60-64	3	16	26	19	24	12	19	119	6,761,454
65 & Over	1	3	18	9	4	1	4	40	2,230,623
<b>Totals</b>	<b>255</b>	<b>274</b>	<b>433</b>	<b>335</b>	<b>201</b>	<b>68</b>	<b>41</b>	<b>1,607</b>	<b>\$91,589,536</b>

There are 3 MPP members in the above totals.

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

**Age:** 45.3 years  
**Service:** 13.5 years  
**Annual Pay:** \$56,994

**TOTAL RETIRED MEMBERS AS OF DECEMBER 31, 2013  
BY ATTAINED AGE**

---

<b>Attained Age</b>	<b>Number of Retirees and Surviving Spouses</b>			<b>Average Flat Dollar Subsidy (Monthly)</b>
	<b>Male</b>	<b>Female</b>	<b>Total</b>	
Under 55	14	13	27	\$261.20
55-59	27	36	63	242.15
60-64	77	65	142	232.27
65 & Over	138	179	317	120.57
<b>Totals</b>	<b>256</b>	<b>293</b>	<b>549</b>	<b>170.33</b>

The number counts above only include those retirees who receive retiree health care coverage through the Kent County Retiree Health Care Plan. However, some of the retirees included above are paying the full “premium” for health care coverage.

## ASSET INFORMATION

---

### BALANCE SHEET

<b>Reported Assets – Market Value</b>	
	<b>December 31, 2013</b>
Cash & equivalents	\$ 142,167
Receivables & accruals	87,249
Stocks	11,242,156
Bonds & government securities	3,713,017
Other - Accounts Payable	(6,250)
<b>Total Current Assets</b>	<b>\$15,178,339</b>

### REVENUES AND EXPENDITURES

	<b>2013</b>
Balance – December 31, 2012	\$ 12,605,625
Adjustment	-
Balance – January 1	\$ 12,605,625
Revenues:	
Employees' contributions	-
Employer contributions	1,641,127
Investment income	2,105,790
Total	3,746,917
Expenditures:	
Benefit payments	1,083,090
Refund of member contributions	-
Administrative and investment expenses	91,113
Total	1,174,203
Balance - December 31	<b>\$15,178,339</b>
Rate of Return	15.64%

---

**SECTION E**

**ACTUARIAL COST METHOD AND ACTUARIAL  
ASSUMPTIONS**

---

## 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 normal cost* method having the following characteristics:

- (i) the annual normal costs for each individual active member, payable from the date of employment to the date of retirement, are 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.

***Asset Valuation Method.*** Valuation assets are the market value of assets on the valuation date.

***Financing of Unfunded Actuarial Accrued Liabilities.*** Unfunded actuarial accrued liabilities were amortized by level (principal & interest combined) percent-of-payroll contributions over an open period of 30 years. The 30 year amortization factor used was 18.6531.

## ACTUARIAL ASSUMPTIONS

---

*The rate of investment return* was 7.5% a year, compounded annually net of expenses.

The assumed real return is the rate of return in excess of price inflation. Considering other assumptions used in the valuation, the 7.5% nominal rate translates to a net real return of 3.5% a year.

*The base rate of salary increase* used for individual members was 4.0% per year.

The number of active members is assumed to remain constant in the future.

If the number of active members remains constant, then the total active payroll is expected to increase 4.0% annually, the base portion of the individual salary increase assumptions. The payroll growth rate for financing Unfunded Actuarial Accrued Liabilities was assumed to be 4.0% per year.

*The rates of salary increase* used for individual members are in accordance with the following table.

This assumption is used to project a member's current salary to the salaries upon which benefit amounts will be based.

Sample Ages	Salary Increase Assumptions For an Individual Member		
	Merit & Seniority	Base (Economic)	Increase Next Year
20	7.0 %	4.0 %	11.0 %
25	5.8	4.0	9.8
30	3.5	4.0	7.5
35	2.1	4.0	6.1
40	1.4	4.0	5.4
45	1.1	4.0	5.1
50	0.8	4.0	4.8
55	0.5	4.0	4.5
60	0.2	4.0	4.2
65	0.0	4.0	4.0

## ACTUARIAL ASSUMPTIONS (CONTINUED)

---

*The mortality table* used was the RP-2000 Combined Healthy Mortality Table projected to 2017 using Scale BB. This table was first used for the December 31, 2013 valuation.

Sample Attained Ages	Single Life Retirement Values			
	% of Active Members Dying Within Next Year		Future Life Expectancy (Years)	
	Male	Female	Male	Female
50	0.20%	0.16%	32.66	35.29
55	0.34	0.25	28.05	30.61
60	0.60	0.43	23.61	26.04
65	1.04	0.79	19.42	21.70
70	1.72	1.36	15.53	17.68
75	2.93	2.29	12.00	14.02
80	4.98	3.74	8.93	10.76

This assumption is used to measure the probabilities of each benefit payment being made after retirement. For active members, the probabilities of dying before retirement were based upon 100% of the same mortality table as members dying after retirement and the probabilities of each benefit payment being made after retirement. No margin for future mortality improvements is included in these tables.

## ACTUARIAL ASSUMPTIONS (CONTINUED)

---

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

<b>Service Based</b>	
<b>Years of Service</b>	<b>Active Members Retiring Next Year</b>
25	25 %
26	20
27	15
28	15
29	20
30	20
31	20
32	30
33	40
34	60
35	100

<b>Age and Service Based</b>			
<b>Retirement Ages</b>	<b>Active Members Retiring Next Year</b>		
	<b>Eligible at Age 60</b>	<b>Eligible at Age 55</b>	<b>Early</b>
55		25%	5%
56		20	5
57		15	5
58		15	5
59		20	5
60	20%	20	5
61	20	20	5
62	20	30	
63	20	40	
64	20	60	
65	20	100	
66	25		
67	25		
68	25		
69	25		
70	100		

## ACTUARIAL ASSUMPTIONS (CONTINUED)

---

*Rates of separation from active membership* were as shown below (rates do not apply to members eligible to retire). This assumption measures the probabilities of members remaining in employment.

Sample Ages	Years of Service	% of Active Members Separating Within Next Year
ALL	0	20.00 %
	1	15.00
	2	10.00
	3	8.00
	4	7.00
25	5 & Over	6.00
30		6.00
35		5.40
40		4.40
45		3.70
50		3.20
55		3.00
60		3.00

*Rates of disability* among active members.

Sample Ages	% of Active Members Becoming Disabled Within Next Year
20	0.02 %
25	0.03
30	0.04
35	0.07
40	0.10
45	0.14
50	0.23
55	0.38
60	0.55

Twenty-five percent of disabilities were assumed to be duty related.

## ACTUARIAL ASSUMPTIONS (CONCLUDED)

---

*Health cost increases* – See table below.

Year	Medical and Drug Trend Rates
2014	9.00%
2015	8.50
2016	8.00
2017	7.50
2018	7.00
2019	6.50
2020	6.00
2021	5.50
2022	5.00
2023	4.50
2024 & Later	4.00

## MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

---

<b>Decrement Operation:</b>	Disability and mortality decrements do not operate during the first 5 years of service. Disability and withdrawal do not operate during retirement eligibility.
<b>Decrement Timing:</b>	Decrements of all types are assumed to occur mid-year.
<b>Eligibility Testing:</b>	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.
<b>Incidence of Contributions:</b>	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.
<b>Marriage Assumption:</b>	Male spouses are assumed to be three years older than female spouses for active member valuation purposes.
<b>Pay Increase Timing:</b>	Beginning of (Fiscal) year. This is equivalent to assuming that reported pays represent amounts paid to members during the year ended on the valuation date.
<b>Medicare Coverage:</b>	Assumed to be available for all covered employees on attainment of age 65. Disabled retirees were assumed to be eligible for Medicare coverage at age 65.
<b>Election Percentage:</b>	It was assumed that 30% of female retirees and 50% of male retirees would choose not to receive retiree health care benefits through the County. Of those assumed to elect coverage, 30% of males and 21% of females were assumed to elect two-person coverage, if eligible. For those that elect two-person coverage, it was assumed that coverage would continue to 10% of the surviving spouses upon death of the retiree, if eligible.
<b>Employer Cost:</b>	The employer's portion of the per capita cost is assumed to be the implicit subsidy and the applicable flat dollar subsidy. All flat dollar subsidies are assumed to remain level.

---

## **SECTION F**

### **DISCLOSURES REQUIRED BY STATEMENTS NO. 43 AND NO. 45 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD**

---

**This information is presented in draft form for review by the Plan and/or County auditor. Please let us know if there are any items that the auditor changes so that we may maintain consistency with the Plan and/or County financial statements.**

**GASB STATEMENTS NO. 43 AND NO. 45**  
**REQUIRED SUPPLEMENTARY INFORMATION**

---

Valuation Date	December 31, 2013
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level Percent-of-Payroll Open
Remaining Amortization Periods	30 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Salary Increases	4.0% - 11.0%
Health Care Cost Trend Rate	9.0% Initial to 4% Ultimate over 11 years

**GASB STATEMENTS NO. 43 AND NO. 45**

---

**SCHEDULE OF FUNDING PROGRESS**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ([b-a]/c)</b>
12/31/2006	\$ -	\$40,650,129	\$40,650,129	0.0%	\$ 91,300,604	44.5%
12/31/2007	2,522,191	31,652,880	29,130,689	8.0%	91,856,607	31.7%
12/31/2008	4,201,774	38,377,399	34,175,625	10.9%	94,065,929	36.3%
12/31/2009	6,467,528	39,171,891	32,704,363	16.5%	95,198,853	34.4%
12/31/2010	9,003,067	45,864,042	36,860,975	19.6%	92,734,218	39.7%
12/31/2011	10,531,436	44,257,602	33,726,166	23.8%	91,139,213	37.0%
12/31/2012	12,605,625	48,975,067	36,369,442	25.7%	91,421,357	39.8%
12/31/2013	15,178,339	50,174,616	34,996,277	30.3%	91,589,536	38.2%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<b>Valuation Date</b>	<b>Fiscal Year Ending</b>	<b>Annual Required Contribution</b>
12/31/2006	12/31/2008	\$3,940,154
12/31/2007	12/31/2009	2,811,665
12/31/2008	12/31/2010	3,367,650
12/31/2009	12/31/2011	3,284,650
12/31/2010	12/31/2012	3,600,818
12/31/2011	12/31/2013	3,193,869
12/31/2012	12/31/2014	3,401,518
12/31/2013	12/31/2015	3,318,618

---

**APPENDIX A**  
OVERVIEW

---

## **GASB BACKGROUND AND STANDARDS**

---

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. The information is designed to assist you in complying with Governmental Accounting Standards Board (GASB) Statements No. 43 and No. 45. 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 in the future when they retire.

GASB Statements No. 43 and No. 45 were released 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. Your auditor can assist you in determining which statements apply to your particular situation.

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.

### **GASB Statement No. 45**

Among the requirements of Statement No. 45 are recognition each year of an expense called the Annual OPEB Cost, and the accumulation of a liability to be disclosed on the employer's Statement of Net Assets called the Net OPEB Obligation (NOO).

The fundamental items required to determine the Annual OPEB Cost and the NOO are:

- the Annual Required Contribution (ARC)
- the Employer's Contributions in relation to the ARC

Although GASB does not require OPEB contributions, it has chosen to call the base component of the annual OPEB cost the Annual Required Contribution. The ARC is provided in this report.

## **GASB BACKGROUND AND STANDARDS (CONCLUDED)**

---

Paragraph 13g. of Statement No. 45 states:

“An employer has made a contribution in relation to the ARC if the employer has:

1. made payments of benefits directly to or on behalf of a retiree or beneficiary,
2. made premium payments to an insurer, or
3. irrevocably transferred assets to a trust, or equivalent arrangement in which Plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the Plan and are legally protected from creditors of the employer(s) or plan administrator.”

For each fiscal year shown in this report, we have provided the ARC and the estimated benefits and/or premiums (based on valuation assumptions).

The NOO is the cumulative difference between the Annual OPEB Cost each year and the Employer’s Contribution in relation to the ARC. The Annual OPEB Cost for a year is equal to:

- the ARC, plus
- interest on the prior year’s NOO, plus
- amortization of the prior year’s NOO.

The Annual OPEB Cost and NOO are generally developed by the Plan Sponsor’s auditor based on information contained herein and elsewhere.

### **GASB Statement No. 43**

If the Plan has assets for Statement No. 43 purposes, then certain additional information useful in complying with the Statement is contained in this report.

## 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 health care 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.

May 20, 2014

Mr. Stephen Duarte  
Fiscal Services Director  
Kent County Retiree Health Care Plan  
300 Monroe Avenue, N.W.  
Grand Rapids, Michigan 49503-2222

**Re: Retiree Health Care Plan**

Dear Stephen:

Enclosed are 20 copies of our report of the actuarial valuation of the Kent County Retiree Health Care Plan.

Respectfully submitted,



Randall J. Dziubek  
ASA, EA, MAAA

RJD:ah  
Enclosures