



City of Dover

Projected Costs Under GASB 45 for Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

**Current Plan
with a July 1, 2005 Measurement Date**



PALMER & CAY

Established 1868

*9020 Stony Point Parkway, Suite 200
Richmond, VA 23235
(804) 267-3100, Fax: (804) 330-1386*

December 2005

Table of Contents

Sections	Page
I. Summary Overview.....	3
II. Projected Annual Required Contribution.....	4
III. Five-Year Projected Net OPEB Obligation	5
IV. Participant Demographics	6
V. Actuarial Method and Assumptions	8
VI. Plan Provisions	12
VII. Glossary	14
VIII. Appendix	15
A. Summary of Liability and Expense – Medicare Reimbursement Only	
B. Breakdown of Liability and Expense by Fund and Department	

I. Summary Overview

Palmer & Cay is pleased to present this report to the City of Dover (“City”) which provides an estimate of the liability and annual cost for the City’s employees’ postretirement medical plans. This report reflects our understanding of the Governmental Accounting Standards Board (GASB) Statement No. 45 for Accounting and Financial Reporting for Postemployment Benefit Other Than Pensions.

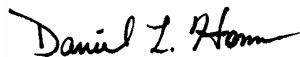
We have relied on the plan provisions and retirement eligibility provided by the City. Also, we received active and inactive data from the City and have reviewed the data for reasonableness only. We have not performed a formal audit of the data used for this valuation.

Because we are providing an estimate at this time, we have presented the results of the annual required contribution under six different scenarios. We have prepared the calculation as of July 1, 2005 under three different discount rates, 4.0%, 5.0% and 6.0% and have shown the amortization of the initial unfunded actuarial liability over 25 and 30 years. These different scenarios show how the different discount rates and amortization periods impact the City’s cost.

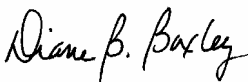
GASB 45 allows for one of several cost methods to be used in valuing the liabilities of the plan. However, for this estimate, we have used the Projected Unit Credit Actuarial Cost Method only to determine the liabilities.

We are available to answer questions about this report or to provide additional information as needed.

Respectfully submitted,
Palmer & Cay



Daniel L. Homan, EA, MAAA
Senior Consultant



Diane B. Boxley, FSA, MAAA
Senior Consultant

II. Projected Annual Required Contribution

Below is the estimated Annual Required Contribution (ARC) under six different scenarios for the implementation year of GASB 45.

	Scenario					
	[1]	[2]	[3]	[4]	[5]	[6]
A. Scenario Options						
1. Discount Rate:	4.0%	5.0%	6.0%	4.0%	5.0%	6.0%
2. Amortization Period:	25 Years			30 Years (Maximum Allowed)		
B. Benefit Obligation at 7/1/2005						
1. Actives	\$ 22,902,000	\$ 18,268,000	\$ 14,781,000	\$ 22,902,000	\$ 18,268,000	\$ 14,781,000
2. Retirees	<u>40,282,000</u>	<u>35,424,000</u>	<u>31,465,000</u>	<u>40,282,000</u>	<u>35,424,000</u>	<u>31,465,000</u>
3. Total: (1) + (2)	\$ 63,184,000	\$ 53,692,000	\$ 46,246,000	\$ 63,184,000	\$ 53,692,000	\$ 46,246,000
C. Annual Required Contribution (ARC)						
1. Normal Cost						
(a) Normal Cost at beginning of year	\$ 1,629,000	\$ 1,276,000	\$ 1,016,000	\$ 1,629,000	\$ 1,276,000	\$ 1,016,000
(b) Interest to end of year	<u>65,000</u>	<u>64,000</u>	<u>61,000</u>	<u>65,000</u>	<u>64,000</u>	<u>61,000</u>
(c) Total Normal Cost: (a) + (b)	\$ 1,694,000	\$ 1,340,000	\$ 1,077,000	\$ 1,694,000	\$ 1,340,000	\$ 1,077,000
2. Amortization Payment						
(a) Actuarial Accrued Liability	\$ 63,184,000	\$ 53,692,000	\$ 46,246,000	\$ 63,184,000	\$ 53,692,000	\$ 46,246,000
(b) Plan Assets	<u>2,423,000</u>	<u>2,423,000</u>	<u>2,423,000</u>	<u>2,423,000</u>	<u>2,423,000</u>	<u>2,423,000</u>
(c) Unfunded Actuarial Accrued Liability: (a) - (b)	\$ 60,761,000	\$ 51,269,000	\$ 43,823,000	\$ 60,761,000	\$ 51,269,000	\$ 43,823,000
(d) Amortization Factor	<u>16.247</u>	<u>14.799</u>	<u>13.550</u>	<u>17.984</u>	<u>16.141</u>	<u>14.591</u>
(e) Amortization Payment: (c) / (d)	\$ 3,740,000	\$ 3,464,000	\$ 3,234,000	\$ 3,379,000	\$ 3,176,000	\$ 3,003,000
(f) Interest to end of year	<u>150,000</u>	<u>173,000</u>	<u>194,000</u>	<u>135,000</u>	<u>159,000</u>	<u>180,000</u>
(g) Total Amortization Payment: (e) + (f)	\$ 3,890,000	\$ 3,637,000	\$ 3,428,000	\$ 3,514,000	\$ 3,335,000	\$ 3,183,000
3. Annual Required Contribution: (1c) + (2g)	\$ 5,584,000	\$ 4,977,000	\$ 4,505,000	\$ 5,208,000	\$ 4,675,000	\$ 4,260,000

III. Five-Year Projected Net OPEB Obligation

Below is the anticipated growth in the Net OPEB Obligation (NOO) assuming the City makes a contribution to current assets of the difference between the Annual Required Contribution (ARC) and the Pay-As-You-Go costs. Investment returns on assets is assumed to be 7.5% per year. The other assumptions used for this projection are based on a discount rate of 5.0% and an initial amortization period of 25 years. We have fresh started the amortization of the unfunded actuarial accrued liability each year for this projection. We have projected the data into the future based on the current active population remaining constant. Also, the estimated pay-as-you-go employer contributions are based on projected medical premium payments made during the year for the retired employees by the City.

**Projection of Net OPEB Obligation based on
Contributions Equal to Annual Required Contribution (ARC)**

[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Year	ARC	Interest on Net OPEB Obligation	ARC Adjustment	OPEB Cost [2] + [3] - [4]	Estimated Employer Contributions	Change in Net OPEB Obligation [5] - [6]	Net OPEB Obligation
0	\$4,977,000	\$ 0	\$ 0	\$4,977,000	\$4,977,000	\$ 0	\$ 0
1	\$4,888,000	\$ 0	\$ 0	\$4,888,000	\$4,888,000	\$ 0	\$ 0
2	\$4,775,000	\$ 0	\$ 0	\$4,775,000	\$4,775,000	\$ 0	\$ 0
3	\$4,673,000	\$ 0	\$ 0	\$4,673,000	\$4,673,000	\$ 0	\$ 0
4	\$4,550,000	\$ 0	\$ 0	\$4,550,000	\$4,550,000	\$ 0	\$ 0
5	\$4,412,000	\$ 0	\$ 0	\$4,412,000	\$4,412,000	\$ 0	\$ 0

IV. Participant Demographics

A. Distribution of Active Participants

Age as of 7/1/2005	Years of Service						Totals
	0-4	5-9	10-14	15-19	20-24	25+	
Under 25	10	0	0	0	0	0	10
25 - 29	22	7	0	0	0	0	29
30 - 34	22	17	5	1	0	0	45
35 - 39	19	19	15	13	1	0	67
40 - 44	8	7	13	25	8	2	63
45 - 49	12	7	9	20	9	6	63
50 - 54	5	10	10	7	2	3	37
55 - 59	4	6	5	5	1	1	22
60 - 64	2	0	2	2	1	1	8
65 +	0	0	0	0	0	0	0
Totals	104	73	59	73	22	13	344

B. Average Active Participant Statistics as of July 1, 2005

1. Attained age	42.0
2. Years of service	10.5

IV. Participant Demographics

C. Distribution of Inactive Participants

Age	Retirees		Surviving Spouse With Coverage	Totals
	With Spouse Coverage	Without Spouse Coverage		
Under 50	6	13	0	19
50 to 54	9	22	0	31
55 to 59	14	20	2	36
60 to 64	5	15	2	22
65 to 69	4	13	3	20
70 to 74	9	20	2	31
75 to 79	7	9	2	18
80 to 84	2	4	3	9
Over 85	0	2	3	5
Totals	56	118	17	191

V. Actuarial Method and Assumptions

Actuarial Method

The valuation of the liabilities as of July 1, 2005 is based on a closed group. Current employees and retirees only are considered and no provision is made for future hires. For the five-year projection, we have assumed one new entrant will enter the plan for every active employee who either retires or terminates from the City. Therefore, the active population will remain at a constant level based on the July 1, 2005 count.

1. **Calculation of Present Values** – Using the actuarial assumptions, the number of retired participants is projected each year in the future. Costs are projected for each future year at each age using the trend and aging assumptions. The projected costs are multiplied by the expected number of retirees in each future year to produce expected benefits payments. These payments are then discounted using the discount rate to determine the present value of the projected liabilities.
2. **Actuarial Cost Method** – Retiree postemployment benefit expenses are determined under the Projected Unit Credit actuarial cost method. Under this method, benefits are projected for life and their present values are determined. The present values are divided into equal parts, which are earned over the period from date of hire to the full eligibility date.

Actuarial Assumptions

1. Trend rates for medical benefits are as follows:
 - Medical (including Prescription Drugs) and Medicare Reimbursement Benefits

<u>Plan Year</u>	<u>Medical</u>	<u>Medicare Reimbursement</u>
2005	11.0%	13.0%
2006	10.0%	13.0%
2007	9.0%	12.0%
2008	8.0%	11.0%
2009	7.0%	10.0%
2010	6.5%	9.0%
2011	6.0%	8.0%
2012	5.5%	7.0%
2013	5.0%	6.5%
2014	5.0%	6.0%
2015	5.0%	5.5%
2016+	5.0%	5.0%

V. Actuarial Method and Assumptions (cont.)

2. Upon retirement from either the defined benefit or defined contribution retirement plan, eligible Retirees and their dependents may remain in the City's health plans. Under age 65, they are in the same plans as the active employees. At age 65, each plan has a companion Medicare supplement or carve-out option in which the retiree or spouse may enroll. Except for retirees covered by the IUE or IBEW Union agreements, retirees pay nothing towards their coverage and 25% of the blended rate towards their dependent coverage. The Union employees, upon retirement, have various contribution arrangements depending on their hire dates and when they retire. These arrangements are described in detail under Section VI, Plan Provisions. The 2005 monthly rates for health coverage are shown below:

Medical Plan and Tier	2005 Rate
<u>Basic</u>	
• Retiree Only	\$433.79
• Retiree + Child(ren)	\$652.94
• Retiree + Spouse	\$887.68
• Retiree + Family	\$1,108.90
<u>First State</u>	
• Retiree Only	\$439.37
• Retiree + Child(ren)	\$666.64
• Retiree + Spouse	\$906.37
• Retiree + Family	\$1,132.25
<u>Comprehensive, PPO</u>	
• Retiree Only	\$484.82
• Retiree + Child(ren)	\$739.17
• Retiree + Spouse	\$995.75
• Retiree + Family	\$1,244.07
• Special Medicfill	\$331.85
<u>Blue Care</u>	
• Retiree Only	\$449.96
• Retiree + Child(ren)	\$681.23
• Retiree + Spouse	\$937.77
• Retiree + Family	\$1,169.63
• Carveout	\$302.74
<u>Coventry</u>	
• Retiree Only	\$455.52
• Retiree + Child(ren)	\$692.19
• Retiree + Spouse	\$936.61
• Retiree + Family	\$1,167.07
• Medwrap	\$326.00

V. Actuarial Method and Assumptions (cont.)

3. At age 65, the City also reimburses retirees for their Medicare Part B premium. For 2005, this is \$78.20 per month. The Centers for Medicare and Medicaid Services (CMS) has already announced the 2006 premium which will be \$88.50 per month. This benefit applies to both union and non-union employees.
4. Medical claims by selected ages used for the valuation are as follows:

Age	Medical Annual Claims
50	\$7,127
55	\$9,048
60	\$10,577
65	\$3,939

5. We assumed 30% of retirees will elect coverage for their spouse at retirement.
6. The husband is assumed to be four years older than the wife.
7. Percentage of Retirees who elect coverage: We assumed 100% of employees would elect coverage at retirement.
8. Mortality Table: 1983 Group Annuity Mortality Table for males and females. Sample rates are shown below:

Attained Age	Male	Female
20	0.04%	0.02%
30	0.06%	0.03%
40	0.12%	0.07%
50	0.39%	0.16%
60	0.92%	0.42%
70	2.75%	1.24%
80	7.41%	4.29%

V. Actuarial Method and Assumptions (cont.)

9. Termination Table: Termination of employment based on gender, age and length of service. Sample rates are shown below:

Years of Service	Termination Rate
0	25%
1	25%
2	20%
3	13%
4	7%

Termination Rates after 5+ years of service

Attained Age	Termination Rate
20	6.64%
30	4.93%
40	4.04%
50	2.17%
60	1.56%

10. Disability Table: 1975 Social Security Disability Rates. Sample Rates are shown below.

Attained Age	Male	Female
20	0.15%	0.06%
30	0.19%	0.13%
40	0.37%	0.34%
50	0.89%	0.77%
60	2.51%	1.89%

11. Retirement Rates: Retirement rates are shown below.

Attained Age	Rate
50 - 54	10.0%
55	20.0%
56 - 59	10.0%
60 - 64	20.0%
65 - 69	80.0%
70	100.0%

VI. Plan Provisions

The City of Dover provides health insurance during retirement for retirees and their dependents including surviving spouses for their lifetime. Retirees and their dependents remain in the City's health insurance plans and may be covered by any one of five medical plans. Most of the active employees and retirees are in the Comprehensive (PPO) plan. At Medicare eligibility, the member is covered by a companion Medicare supplement or carveout plan. Also at Medicare eligibility, the City reimburses the retiree for his Medicare Part B premium. For 2005, this is \$78.20 per month and will increase to \$88.50 in 2006.

To be eligible for health benefits, the employee must retire under the provisions of the City of Dover defined benefit or defined contribution retirement plan. Any participant may retire early with a reduced pension benefit following the attainment of age 55 and completion of 10 years of service. A participant hired on or after May 1, 1994 may retire with an unreduced pension benefit following attainment of age 55 if their age plus service equal at least 80. A participant hired before May 1, 1994 may retire with an unreduced pension benefit on the earlier of (1) attaining age 50 with 20 years of service or (2) completing 25 years of service.

The various contribution arrangements are as follows:

Employees under the IUE Union agreement

Normal Retirement: The City will pay 100% of individual coverage and 75% for dependent coverage for any IUE member who retires under normal retirement regardless of hire date.

Early Retirement: The City will pay 100% for individual coverage for IUE members hired on or before 7/1/94 who retire with early retirement. In addition, the City will pay 75% for dependent coverage.

The City will not pay any portion of individual or dependent coverage for any IUE member hired after 7/1/94 who retires with early retirement.

Employees under the IBEW Union agreement

Normal Retirement: The City will pay 100% of individual coverage for any IBEW member who retires under normal retirement regardless of hire date.

For those IBEW members whose hire date is prior to July 1, 1986, the City will pay 75% for dependent coverage.

For those IBEW members whose hire date is on or after July 1, 1986, the City will not pay any portion of dependent coverage.

Early Retirement: The City will pay 100% of individual coverage for any IBEW member who retires with an unreduced pension regardless of hire date. For those IBEW members who retire with a reduced pension, the City will pay 0% toward the individual coverage.

VI. Plan Provisions (cont.)

Employees under the IBEW Union agreement (cont.)

Early Retirement (cont.)

For those IBEW members whose hire date is prior to July 1, 1986, the City will pay 75% for dependent coverage if they retire with an unreduced pension.

For those IBEW members whose hire date is on or after July 1, 1986, the City will not pay any portion of dependent coverage regardless if they retire with a reduced or unreduced pension.

FOP and Non-Bargaining Employees

If the employee is eligible to retire, then the City will pay 100% towards individual coverage and contribute 75% towards dependent coverage.

We note that all of the above contributions are percentages of the blended rates outlined in Section V, Actuarial Method and Assumptions.

When a retiree dies, his surviving dependents may continue coverage at their current contributions.

VII. Glossary

Actuarial Accrued Liability. That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of medical plan benefits which is not provided for by future Normal Costs.

Actuarial Cost Method. A procedure for determining the Actuarial Present Value of medical plan benefits and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and Actuarial Accrued Liability.

Amortization Payment. That portion of the Annual Required Contribution that is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

Actuarial Present Value. The value of a benefit or series of benefits payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions.

Annual Required Contribution of the Employer (ARC). The employer's periodic required contributions to a Defined Benefit OPEB Plan, calculated in accordance with parameters.

Defined Benefit OPEB Plan. An OPEB plan having terms that specify the amount of benefits to be provided at a future date or after a certain period of time. The amount of the benefit specified usually is a function of one or more factors such as years of service and compensation.

Healthcare Cost Trend Rate. The rate of change in per capita health claims cost over time as a result of factors such as medical inflation, utilization of healthcare services, plan design and technological developments.

Normal Cost. That portion of the Actuarial Present Value of OPEB plan benefits that is allocated to a valuation year by the Actuarial Cost Method.

Other Postemployment Benefits (OPEB). Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include Postemployment Healthcare Benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, excluding benefits defined as termination offers and benefits.

Postemployment Healthcare Benefits. Medical, dental, vision and other health-related benefits provided to terminated or retired employees and their dependents and beneficiaries.

Substantive Plan. The terms of the OPEB plan as understood by the employer and plan members.

Unfunded Actuarial Accrued Liability. The excess, if any, of the Actuarial Accrued Liability over the assets of the plan.

VIII. Appendix

A. Summary of Liability and Expense – Medicare Reimbursement Only

B. Breakdown of Liability and Expense by Fund and Department

Appendix A

City of Dover
GASB Postretirement Benefits - Medicare Reimbursement Only
Summary of Liability and Expense at 7/1/2005

	Scenario					
	[1]	[2]	[3]	[4]	[5]	[6]
A. Scenario Options						
1. Discount Rate:	4.0%	5.0%	6.0%	4.0%	5.0%	6.0%
2. Amortization Period:	25 Years			30 Years (Maximum Allowed)		
B. Benefit Obligation at 7/1/2005						
1. Actives	\$ 3,088,000	\$ 2,351,000	\$ 1,814,000	\$ 3,088,000	\$ 2,351,000	\$ 1,814,000
2. Retirees	<u>4,487,000</u>	<u>3,802,000</u>	<u>3,256,000</u>	<u>4,487,000</u>	<u>3,802,000</u>	<u>3,256,000</u>
3. Total: (1) + (2)	\$ 7,575,000	\$ 6,153,000	\$ 5,070,000	\$ 7,575,000	\$ 6,153,000	\$ 5,070,000
C. Annual Required Contribution (ARC)						
1. Normal Cost						
(a) Normal Cost at beginning of year	\$ 258,000	\$ 193,000	\$ 147,000	\$ 258,000	\$ 193,000	\$ 147,000
(b) Interest to end of year	<u>10,000</u>	<u>10,000</u>	<u>9,000</u>	<u>10,000</u>	<u>10,000</u>	<u>9,000</u>
(c) Total Normal Cost: (a) + (b)	\$ 268,000	\$ 203,000	\$ 156,000	\$ 268,000	\$ 203,000	\$ 156,000
2. Amortization Payment						
(a) Actuarial Accrued Liability	\$ 7,575,000	\$ 6,153,000	\$ 5,070,000	\$ 7,575,000	\$ 6,153,000	\$ 5,070,000
(b) Plan Assets	<u>2,423,000</u>	<u>2,423,000</u>	<u>2,423,000</u>	<u>2,423,000</u>	<u>2,423,000</u>	<u>2,423,000</u>
(c) Unfunded Actuarial Accrued Liability: (a) - (b)	\$ 5,152,000	\$ 3,730,000	\$ 2,647,000	\$ 5,152,000	\$ 3,730,000	\$ 2,647,000
(d) Amortization Factor	<u>16.247</u>	<u>14.799</u>	<u>13.550</u>	<u>17.984</u>	<u>16.141</u>	<u>14.591</u>
(e) Amortization Payment: (c) / (d)	\$ 317,000	\$ 252,000	\$ 195,000	\$ 286,000	\$ 231,000	\$ 181,000
(f) Interest to end of year	<u>13,000</u>	<u>13,000</u>	<u>12,000</u>	<u>11,000</u>	<u>12,000</u>	<u>11,000</u>
(g) Total Amortization Payment: (e) + (f)	\$ 330,000	\$ 265,000	\$ 207,000	\$ 297,000	\$ 243,000	\$ 192,000
3. Annual Required Contribution: (1c) + (2g)	\$ 598,000	\$ 468,000	\$ 363,000	\$ 565,000	\$ 446,000	\$ 348,000

Appendix B

City of Dover
GASB Postretirement Benefits
Summary of Liability and Expense at 7/1/2005 by Fund and Department

Fund	Department	Benefit Obligation at 7/1/2005			Normal Cost with Interest at 7/1/2005			Annual Required Contribution at 7/1/2005					
		Discount Rate			Discount Rate			Discount Rate			Discount Rate		
		4.0%	5.0%	6.0%	4.0%	5.0%	6.0%	4.0%	5.0%	6.0%	4.0%	5.0%	6.0%
		Amortization - 25 Years			Amortization - 30 Years			Amortization - 25 Years			Amortization - 30 Years		
480-Electric	8200-562	2,531,000	2,036,000	1,660,000	124,000	98,000	79,000	280,000	236,000	202,000	265,000	224,000	193,000
	8300-563	2,362,000	1,938,000	1,612,000	100,000	82,000	68,000	245,000	213,000	187,000	231,000	202,000	179,000
	8400-564	100,000	74,000	55,000	12,000	9,000	8,000	18,000	14,000	12,000	18,000	14,000	12,000
	8500-565	474,000	380,000	307,000	38,000	31,000	25,000	67,000	57,000	48,000	64,000	55,000	46,000
Subtotal 480		\$ 5,467,000	\$ 4,428,000	\$ 3,634,000	\$ 274,000	\$ 220,000	\$ 180,000	\$ 610,000	\$ 520,000	\$ 449,000	\$ 578,000	\$ 495,000	\$ 430,000
Total Actives		\$ 22,902,000	\$ 18,268,000	\$ 14,781,000	\$ 1,694,000	\$ 1,340,000	\$ 1,077,000	\$ 3,104,000	\$ 2,580,000	\$ 2,176,000	\$ 2,968,000	\$ 2,474,000	\$ 2,092,000
<u>Retirees</u>													
110-General		\$ 26,011,000	\$ 22,771,000	\$ 20,142,000	\$ 0	\$ 0	\$ 0	\$ 1,602,000	\$ 1,540,000	\$ 1,490,000	\$ 1,447,000	\$ 1,415,000	\$ 1,389,000
12-Water/Wastewater		2,395,000	2,143,000	1,933,000	0	0	0	147,000	145,000	143,000	133,000	133,000	133,000
480-Electric		11,876,000	10,510,000	9,390,000	0	0	0	731,000	712,000	696,000	660,000	653,000	646,000
Total Retirees		\$ 40,282,000	\$ 35,424,000	\$ 31,465,000	\$ 0	\$ 0	\$ 0	\$ 2,480,000	\$ 2,397,000	\$ 2,329,000	\$ 2,240,000	\$ 2,201,000	\$ 2,168,000
Total		\$ 63,184,000	\$ 53,692,000	\$ 46,246,000	\$ 1,694,000	\$ 1,340,000	\$ 1,077,000	\$ 5,584,000	\$ 4,977,000	\$ 4,505,000	\$ 5,208,000	\$ 4,675,000	\$ 4,260,000