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City of Pontiac
Other Postemployment Benefits

Actuarial Valuation as of December 31, 2012

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April 30, 2013

City of Pontiac
47450 Woodward
Pontiac, Michigan 48342

This report contains the results of an actuarial valuation of Other Postemployment Benefits provided by the City of Pontiac which are not covered by the City of Pontiac Police and Fire Employees' VEBA. The valuation was made to determine the computed liabilities and annual required contributions for reporting purposes pursuant to Statements 43 and 45 of the Governmental Accounting Standards Board.

The date of the valuation was December 31, 2012.

This valuation has been conducted in accordance with generally accepted actuarial principles and practices. Data concerning active members, retirees and beneficiaries was provided by the City. This data has been reviewed for reasonableness, but no attempt has been made to audit such information. This valuation was prepared under the supervision of a Member of the American Academy of Actuaries who meets the qualification standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Respectfully submitted,

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Section One:

Valuation Summary

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Purpose of Valuation

The purpose of this actuarial valuation of the City of Pontiac General Employees Other Postemployment Benefits as of December 31, 2012 is to:

- Compute the liabilities and contribution amounts associated with post-employment health and life insurance benefits likely to be paid on behalf of current retired, inactive vested and active employees which are not covered by the City of Pontiac Police and Fire Employees' VEBA.

This information is provided for reporting purposes pursuant to Statements 43 and 45 of the Governmental Accounting Standards Board.

Assumptions Used in the Valuation

The liabilities and annual required contributions are very sensitive to the long-term assumptions used in making the valuation. The assumptions used in making this valuation, summarized in Section Four, are only one reasonable set out of a large number of possibilities. To the extent that actual experience differs from the long-term assumptions, the liabilities and contribution rates will be greater or less than those indicated in this report. The assumptions having the greatest impact are the rate of medical care inflation and the investment return rate. We have assumed a 10.0% annual increase for medical care inflation in the first year, decreasing in increments of 0.5% over the next 12 years to the ultimate 4.0% assumption. The assumed investment return rate was 5.0%. This rate assumes no pre-funding. Please refer to Comments 2 and 3 on pages 4 and 5. Liabilities and computed contributions can change significantly in future years depending upon the actual and assumed rates of medical care inflation, investment return (discount rate), benefit provisions and demographics of the participant group.

Actuarial Accrued Liabilities

Accrued liabilities of the postemployment health benefits as of December 31, 2012, were computed to be $154,890,258. Of this amount, $3,400,062 was attributable to current active employees, $22,303,450 was attributable to inactive vested participants and $129,186,746 was attributable to current retirees.

Funding Value of Assets

There were no assets reported for the valuation.

Annual Required Contribution (ARC)

The total Annual Required Contribution was computed to be $10,058,807 for the Fiscal Year beginning July 1, 2013. There are two components of this contribution, the normal cost and an amortization payment for unfunded actuarial accrued liability. The normal cost contribution was computed to be $226,776. The amortization payment was computed to be $9,832,031. The amortization period used was 30 years. The 30 year period is the maximum permitted for reporting purposes under Statements 43 and 45 of the Governmental Accounting Standards Board.

Participants

	General	Police & Fire	Total
Active Employees	19	0	19
Active Participant Payroll	$1,070,651	$0	$1,070,651
Retirees *	548	193	741
Inactive Vested Participants	192	0	192

**Does not include retirees who retired from the North Oakland Medical Center.*

Post-Retirement Health Care Rates

Data was submitted concerning medical, prescription, dental and life insurance rates for Police and Fire retirees whose date of retirement was prior to August 22, 1996 and all General retirees (excluding North Oakland Medical Center retirees). These benefits are not covered by the VEBA and are paid by the City.

Section Two:

Actuarial Calculations – Funding

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Actuarial Accrued Liabilities

The actuarial accrued liabilities as of December 31, 2012 were computed to be the following:

Active participants	$3,400,062
Vested inactive participants	22,303,450
Retirees and beneficiaries	129,186,746
Total	154,890,258
Less: Valuation Assets	None
Unfunded Actuarial Accrued Liabilities	$154,890,258
Funded Ratio	0.00%

Computed Annual Required Contribution (ARC) –
Fiscal Year Beginning July 1, 2013

The computed contribution rate consists of two components: normal cost and amortization of unfunded actuarial accrued liability. Normal cost was computed to be a level percent of payroll from date of hire to date of termination.

The portion of the total present value of future benefits allocated to service already rendered is the actuarial accrued liability. Deducting the valuation assets (none) produces the unfunded actuarial accrued liability. We have amortized the unfunded actuarial accrued liability (UAAL) as level dollar payments over 30 years, the maximum period for reporting purposes pursuant to GASB Statements 43 and 45.

	Annual Required Contribution (ARC)
Normal Cost	$226,776
Unfunded Actuarial Accrued Liability	9,832,031
Total Computed Contribution	$10,058,807*

*The total computed contribution is the gross amount including retiree contributions, which, are currently estimated to be $546,646 based on information submitted by the City.

Comments

Comment 1: Governmental Accounting Standards Board (GASB) Statements 43 and 45 concern financial reporting for "other postemployment benefits" (OPEB), which are non-pension benefits including retiree health benefits. The standards apply to the plan (Statement 43) and the plan sponsor (Statement 45). Among the required disclosures are the annual OPEB expense, liabilities, funded status and funding progress. Actuarial valuations to determine these disclosures are required at least every 3 years for plans with fewer than 200 participants and at least every 2 years for Plans with 200 participants or more.

Comment 2: The GASB statements do not mandate that the plan sponsor pre-fund OPEB liabilities. However, if the plan sponsor's funding policy is to contribute less than the Annual Required Contribution (ARC), the GASB standards require that an assumed rate of investment return (discount rate) reflecting the assumed rate of return on the City's General Fund be used to compute the liabilities and Annual Required Contribution. This produces higher liabilities, ARC, and the OPEB obligation amounts that must be reported in the financial statements than would be the case if there were pre-funding. The OPEB obligation represents the cumulative difference between the annual OPEB cost and the employer's actual contribution.

For purposes of this valuation we have assumed a rate of investment return (5.0%) based upon the assumption that the City will not contribute the full actuarially determined annual required contribution. The 5.0% assumed rate is 1% higher than the assumed rate of wage inflation. If a lower discount rate is assumed, the liabilities and ARC would be greater. If a higher rate discount rate is assumed the liabilities and ARC would be lower.

Comment 3: Liabilities for health insurance premiums are also highly dependent upon the underlying assumptions concerning medical care inflation. For the purposes of this valuation, we assumed a 10.00% annual medical care inflation rate in the first year, decreasing in 0.5% increments over the following 12 years to the ultimate assumed rate of 4.0%. Liabilities and computed contributions would be greater if higher medical care inflation rates are assumed, and lower if lower inflation rates are assumed.

Comment 4: The unfunded actuarial accrued liabilities were amortized over the maximum 30 year period permitted for reporting purposes under the GASB standards. A shorter period would result in higher computed contribution rates. A 30 year period was also used in the last annual actuarial valuation of Post Employment Benefits.

Comment 5: In order for assets to be considered in determining the unfunded actuarial accrued liability, the assets must be a) irrevocably held in a trust or equivalent arrangement, b) dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan, and c) legally protected from creditors of the employer or plan.

Section Three:

Benefit Provisions

Benefit Provision Summary

This valuation of Other Postemployment Benefits for City of Pontiac employees covers only those benefits that are not provided through the Police and Fire Employees' VEBA.

Retiree Health Benefits

The City pays retiree health benefits and life insurance for General retirees and Police and Fire retirees who retired prior to August 22, 1996 (i.e. not covered by the Police and Fire VEBA). Medical, prescription and core dental benefits are provided for eligible retirees, spouses and dependents.

Non-Medicare eligible participants are covered under the BCBS self-insured plan. Medicare eligible participants are covered under the BCBS insured Medicare Advantage plan.

Survivor Benefits

Benefits (except Life Insurance) continue to the eligible beneficiary after the retiree's death.

Retiree Contributions

Retirees currently not eligible for Medicare, contribute $91.13/mo. for 1 person coverage, $323.79/mo. for 2 person coverage and $505.71/mo. for family coverage. Medicare eligible retirees do not contribute.

Section Four:

Actuarial Assumptions And Methods

Actuarial Assumptions

Economic Assumptions

(i) Interest Rate	7.50% (net of expenses)
(ii) Medical Inflation Rate	10.0%, graded down to 4.0% in 0.5% increments over 12 years
(iii) Salary Increases	
Across-the-Board	4.0%
Merit and Longevity	Age related rates

Sample Annual Rates of Salary Increase

Sample Ages	Base Economic	Non-Teamsters		Teamsters		
		Merit & Longevity	Total	Years of Service	Merit & Longevity	Total
20	4.0%	4.9%	8.9%	1 to 10	2.5%	7.0%
25	4.0%	3.7%	7.7%	thereafter	1.0	5.5
30	4.0%	2.9%	6.9%			
35	4.0%	2.1%	6.1%			
40	4.0%	1.6%	5.6%			
45	4.0%	1.4%	5.4%			
50	4.0%	1.3%	5.3%			
55	4.0%	1.1%	5.1%			
60	4.0%	1.1%	5.1%			

Demographic Assumptions

(i) Mortality

General - 1983 Group Annuity Mortality Table

Sample Ages	Value of $1 Monthly for Life		Future Life Expectancy (Years)	
	Men	Women	Men	Women
50	$132.63	$141.91	29.2	34.9
55	124.30	135.50	24.8	30.2
60	113.90	127.17	20.6	25.7
65	101.22	116.64	16.7	21.3
70	87.30	103.61	13.2	17.1
75	72.78	88.75	10.2	13.4
80	58.43	73.55	7.6	10.2

Police-Fire - 1994 Group Annuity Mortality Table set back one year for males and females.

Sample Ages	Value of $1 Monthly for Life		Future Life Expectancy (Years)	
	Men	Women	Men	Women
55	$134.46	$142.12	27.0	31.1
60	124.60	133.88	22.7	26.5
65	113.00	123.84	18.6	22.1
70	100.30	112.29	15.0	18.1
75	86.40	98.51	11.7	14.3
80	71.54	83.08	8.9	10.9

(ii) Disability

Sample Ages	Percent Becoming Disabled Within Next Year
25	0.42%
30	0.45%
35	0.51%
40	0.67%
45	0.92%
50	1.36%
55	2.20%
60	4.32%

(iii) Termination of Employment

Service related rates for first 5 years of employment. Age related rates for after first 5 years of employment

Sample Ages	Years of Service	% of Active Members Separating Within One Year
All	0	20.0%
	1	18.0
	2	15.0
	3	12.0
	4	10.0
20	5 & Over	7.0
25		7.0
30		6.0
35		4.8
40		3.5
45		2.4
50		1.5
55		1.0
60		1.0

(iv) Retirement Rates Age-related rates

Active Members Retiring within Year
Following Attainment of Indicated Retirement Age or Service

Age	
50	35%
51	30
52	25
53	25
54	25
55	25
56	25
57	50
58	50
59	50
60	20
61	25
62	30
63	30
64	25
65	50
66 and up	100

Actuarial Method Used for the Valuation

Normal Cost. Normal cost and the allocation of actuarial present values between service rendered before and after the valuation date were determined using an individual entry age actuarial cost method having the following characteristics:

- The annual normal costs for each individual active participant, payable from date of hire to date of retirement, are sufficient to accumulate the value of the participant's benefit at the time of retirement;

- Each annual normal cost is a constant percentage of the participant's year-by-year projected covered pay.

Financing of Unfunded Actuarial Accrued Liability. Unfunded actuarial accrued liability was amortized as a level percent of payroll over 30 years.

Section Five:

Valuation Data

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Financial Information

There were no assets reported as of December 31, 2012.

Participant Summary

Retirees and Beneficiaries

Valuation Groups	Number
General Retirees	548
Police & Fire Retirees	193

Vested Inactive Employees

Valuation Groups	Number
General	192
Police & Fire	0

<u>Active Participant Summary</u>

General Employees
Active Participants – December 31, 2012
Age and Service Distribution

Attained	Service						Totals	
Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**No.**	**Payroll**
30-34			1				1	$46,644
40-44			3	3			6	305,415
45-49		1			1		2	169,576
50-54	1		2	3			6	356,186
55-59			1	2		1	4	192,830
Totals	**1**	**1**	**7**	**8**	**1**	**1**	**19**	**$1,070,651**

Group Averages

Age: 48.9 years
Service: 14.4 years
Annual Pay: $56,350