

Milwaukee County

Postretirement Benefit Valuation Report Under GASB 45

Expense Development for Year Beginning January 1, 2012

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May 9, 2013

Milwaukee County
Postretirement Medical and Life Valuation as of January 1, 2012

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Milwaukee County
Postretirement Medical and Life Valuation as of January 1, 2012

Executive Summary

This report has been prepared by Willis North America, Inc. for Milwaukee County for the following purposes:

- To provide the December 31, 2011 reporting and disclosure information for financial statements, governmental agencies, and other interested parties as required in the Statement of Governmental Accounting Standards No. 45 (SGAS 45)
- To present the SGAS 45 expense for the year beginning January 1, 2012.
- To summarize the actuarial methods, assumptions, and data used in the valuation.

Milwaukee County is providing a retiree medical and life program for employees who meet the eligibility requirements upon retirement. Under SGAS 45 retiree benefits are viewed as a form of deferred compensation. As such, the benefits are treated as being earned over the working lifetime of the employee so that the cost is fully charged to operations by the earliest date of eligibility under the plan.

The SGAS 45 Annual Required Contribution (ARC, also called the Expense) and the Actuarial Accrued Liability (AAL) are summarized in Table 1:

Table 1

Actuarial Accrued Liability (AAL) as of 12/31/2011	\$1,134,995
Present Value of Future Benefits as of 12/31/2011	\$1,147,816
ARC for Year Beginning 12/31/2011	\$87,908
Annual OPEB Cost For Year Beginning 1/1/2012	\$84,378

Values are in \$1,000's

Changes Since Prior Valuation

The employee census has been updated to reflect the current population.

The claim cost assumption has been updated.

The other assumptions are consistent with those used in the prior valuation with the following changes:

- The trend assumption has been changed from 5% for all future years to 9% in 2012 decreasing by 1% per year to 5% for 2016 and later.
- As of 4/1/2011, the Medicare Part B premium reimbursement has been eliminated for non-represented employees who are not already retired.
- As of 12/31/2011, the Medicare Part B premium reimbursement has been eliminated for all others who are not already retired, except Nurses, Sheriffs and Firefighters.
- As of 12/31/2012, the Medicare Part B premium reimbursement has been eliminated Nurses who are not already retired.
- Employees (except AFSCME, Firefighters, Sheriffs, Nurses and Building Trades Unions) hired after 1/1/2010 are eligible for normal retirement at age 64 (previously age 60).
- AFSCME employees hired after 8/1/2011 are eligible for normal retirement at age 64 (previously age 60).
- Nurses and Building Trades employees hired after 1/1/2012 are eligible for normal retirement at age 64 (previously age 60).
- Medical coverage for Medicare eligible retirees has been changed to Medicare carve-out effective 1/1/2011.
- Prescription drug coverage for Medicare eligible retirees has been changed to an EGWP plan effective 1/1/2013.

Section 1: Accounting Information

SGAS 45 requires that certain information regarding postretirement benefits other than pension benefits be disclosed in the footnotes to the sponsor's financial statements. The disclosures include a statement of annual required contribution, actuarial accrued liability, reconciliation of the plan's funded status, and a statement of assumptions and amortization methods.

Presented in this section is an illustration of this information for the prior year.

Section 1.1: Development of Annual OPEB Cost for Year Ending 12/31/2012

Section 1.2: Actuarial Accrued Liability by Source

Section 1.3: Development of Net OPEB Obligation as of 12/31/2012

Section 1.4: Schedule of GASB Funding Progress

Section 1.5: Summary of Other Actuarial Cost Methods

Milwaukee County

Postretirement Medical and Life Valuation as of January 1, 2012

Section 1.1

Development of Annual OPEB Cost for Year Ending 12/31/2012

Actuarial Cost Method - Projected Unit Credit Method

	<u>Total</u>	<u>Medical</u>	<u>Life</u>
Normal Cost	\$2,164	\$1,819	\$346
Interest on Normal Cost	\$64	\$54	\$10
Normal Cost Component	\$2,228	\$1,873	\$356
Actuarial Accrued Liability (AAL)	\$1,134,995	\$1,118,032	\$16,963
Actuarial Value of Assets	\$0	\$0	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$1,134,995	\$1,118,032	\$16,963
Funded Ratio	0.0%		
Amortization Method	Closed		
Amortization Period	25 years		
Discount Rate	6.00%		
Amortization Factor	13.550		
Unfunded Actuarial Accrued Liability (UAAL)	\$1,134,995		
Net OPEB Obligation	\$255,789		
Amount To Be Amortized	\$879,206		
Amortization Factor	13.550		
Annual Amortization	\$64,884		
Interest on Amortization Payment	\$1,918		
Amortization Component	\$66,803		
	\$0		
Net OPEB Obligation	\$255,789		
Interest on Net OPEB Obligation	\$15,347		
Amortization Factor	13.550		
Adjustment to Annual Required Contribution	\$18,877		
Annual Required Contribution (ARC)	\$87,908		
	\$0		
Annual OPEB Cost	\$84,378		

Amortization of Unfunded Actuarial Accrued Liability is a Level Dollar Amount

The liability includes the impact of the 40% excise tax effective in 2018 under the Patient Protection and Affordable Care Act of 2010.

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Postretirement Medical and Life Valuation as of January 1, 2012

Section 1.2

Actuarial Accrued Liability by Source

	Total	Medical	Life
Inactives	\$865,355	\$853,251	\$12,104
Actives Fully Eligible	\$232,445	\$231,991	\$454
Actives Not Fully Eligible	\$37,196	\$32,790	\$4,405
Total	\$1,134,995	\$1,118,032	\$16,963

Milwaukee County

Postretirement Medical and Life Valuation as of January 1, 2012

Section 1.3

Development of Net OPEB Obligation as of 12/31/2012

Annual Required Contribution (ARC)	\$87,908
Interest on net OPEB Obligation	\$15,347
Adjustment to Annual Required Contribution	\$18,877
Annual OPEB Cost	\$84,378
Projected Pay-as-you-go Expense	\$55,691
Net OPEB Obligation - Beginning of Year	\$255,789
Prefunding	\$0
Net OPEB Obligation - Projected End of Year	\$284,476

Milwaukee County

Postretirement Medical and Life Valuation as of January 1, 2012

Section 1.4

Schedule of GASB Funding Progress

GASB 45 Schedule of Funding Progress at 6% (in \$1,000's)

(1)	(2)	(3)	(4)	(5)
Year Ended	Annual Required Contribution	Interest on NOO	ARC Adjustment (9) / (5)	Amortization Factor
12/31/2010	118,812	10,232	23,171	
12/31/2011	118,812	12,673	28,698	
12/31/2012	87,908	15,347	18,877	13.5504
	(6)	(7)	(8)	(9)
Year Ended	OPEB Cost	Contribution	Change in Net OPEB Obligation	Net OPEB Obligation Balance (Beginning Balance + (8))
	(2) + (3) - (4)		(6) - (7)	
12/31/2010	105,873	65,190	40,683	170,541
12/31/2011	102,787	58,222	44,565	211,224
12/31/2012	84,378	55,691	28,687	255,789
				284,476

Milwaukee County

Postretirement Medical and Life Valuation as of January 1, 2012

Section 1.5

Summary of Other Actuarial Cost Methods

	Unit Credit	Cost Method	
		Entry Age Normal Level \$	Aggregate Level \$
Actuarial Accrued Liability (AAL)	\$1,134,995	\$1,112,986	\$0
Assets	\$0	\$0	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$1,134,995	\$1,112,986	\$0
Net OPEB Obligation	\$255,789	\$255,789	\$0
UAAL Subject to Amortization	\$879,206	\$857,197	\$0
Normal Cost	\$2,164	\$5,340	\$163,189
Interest Cost	\$1,982	\$2,028	\$4,824
Amortization of UAAL	\$64,884	\$63,260	\$0
Adjustment to ARC	\$18,877	\$18,877	\$0
Annual Required Contribution (ARC)	\$87,908	\$89,505	\$168,013

	Frozen Entry Age Level \$	Cost Method	
		Frozen Attained Age Level \$	
Actuarial Accrued Liability (AAL)	\$1,112,986	\$1,134,995	
Assets	\$0	\$0	
Unfunded Actuarial Accrued Liability (UAAL)	\$1,112,986	\$1,134,995	
Net OPEB Obligation	\$255,789	\$255,789	
UAAL Subject to Amortization	\$857,197	\$879,206	
Normal Cost	\$4,542	\$1,406	
Interest Cost	\$2,004	\$1,960	
Amortization of UAAL	\$63,260	\$64,884	
Adjustment to ARC	\$18,877	\$18,877	
Annual Required Contribution (ARC)	\$88,683	\$87,127	

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Postretirement Medical and Life Valuation as of January 1, 2012

Section 2: Supporting Documentation

Summary of Participant Data as of 12/31/2011

Number of Participants in Valuation	Medical	Life
Retirees	5,983	5,147
Actives	2,020	2,020
Total	8,003	7,167

Weighted Average Assumptions as of 12/31/2011

	Funded
Discount Rate	6.00%
Expected Long-Term Rate of Return on Assets	n/a

Assumed Health Care Cost Trend

2012	9.0%
2013	8.0%
2014	7.0%
2015	6.0%
2016 and after	5.0%

Milwaukee County

Postretirement Medical and Life Valuation as of January 1, 2012

Section 3: Basis of Valuation

Section 3.1: Plan Participants

Section 3.2: Actuarial Basis

Section 3.3: Assumptions

Milwaukee County

Postretirement Medical and Life Valuation as of January 1, 2012

Section 3.1: Plan Participants

The valuation includes active employees hired before 1/1/1994 (certain groups have a date later than 1/1/1994) and retirees and their spouses who are currently receiving benefits under the retiree health plan.

Exhibit 3.1a: Count of Active Participants

Exhibit 3.1b: Count of Inactive Participants

Milwaukee County

Postretirement Medical and Life Valuation as of January 1, 2012

Exhibit 3.1a: Count of Active Participants

Age	Years of Service							Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+	
Under 20	0	0	0	0	0	0	0	0
20 - 24	0	0	0	0	0	0	0	0
25 - 29	0	0	0	0	0	0	0	0
30 - 34	0	0	0	0	0	0	0	0
35 - 39	2	1	19	16	0	0	0	38
40 - 44	6	3	39	116	39	8	0	211
45 - 49	16	7	18	112	164	49	11	377
50 - 54	21	10	19	80	202	64	45	441
55 - 59	17	6	14	68	106	56	40	307
60 - 64	11	16	6	26	35	15	19	128
65 - 69	5	1	1	5	3	0	4	19
70+	3	1	2	2	0	0	1	9
Total	81	45	118	425	549	192	120	1,530

Statistics for Active Participants

Average Age	51.7
Average Service	20.3
Percent Male	43.4%

Milwaukee County

Postretirement Medical and Life Valuation as of January 1, 2012

Exhibit 3.1b: Count of Retired Participants

	Medical			
Age	Single	Married	Total	Life
Under 50	91	19	110	47
50 - 54	119	97	216	227
55 - 59	265	451	716	613
60 - 64	814	557	1,371	1,079
65 - 69	612	403	1,015	922
70 +	2,119	717	2,836	2,478
Total	4,020	2,244	6,264	5,366

Section 3.2: Actuarial Basis

A. Funding Policy

The retiree medical plan is operated on a Pay-As-You-Go basis. There are no assets that have been segregated and restricted to provide for retiree medical benefits.

B. Valuation of Assets

The plan has no segregated assets.

In order to be considered as an asset under GASB45, the resource (stock, cash etc) must be segregated and restricted in a trust or equivalent arrangement. Employer contributions to the plan must be irrevocable, dedicated to providing retiree benefits and protected from creditors.

C. Actuarial Cost Method

Unit Credit Actuarial Cost Method with unfunded Actuarial Accrued liability amortized as a level dollar amount over 25 years on a closed basis.

Milwaukee County

Postretirement Medical and Life Valuation as of January 1, 2012

Section 3.3: Assumptions

1. Discount Rate: 6.00%
2. Mortality: RP-2000 Combined Mortality Projected to 2010
3. Annual Termination Rates (per 100):

Age	Select Rates by Year of Employment (General Employees)					Ultimate Rates		
	0	1	2	3	4	Deputy Sheriff*	Elected Officials**	General Employees
20	36.0	25.0	25.0	15.0	12.5	13.5	2.0	10.0
25	31.2	23.4	20.4	15.0	11.9	11.7	2.0	9.4
30	27.1	22.4	16.8	13.2	9.1	6.9	2.0	9.0
35	24.7	21.4	14.8	11.4	7.2	3.6	2.0	6.6
40	22.3	19.2	14.0	10.4	6.7	2.4	2.0	4.7
45	21.5	16.8	14.0	10.0	5.9	2.0	2.0	3.8
50	21.5	14.8	14.0	10.0	7.6	2.0	2.0	3.0
55	21.5	14.0	14.0	10.0	9.0	2.0	2.0	2.3

* The select rates are the same as the ultimate rates

** Select rates assume no turnover in the first four years

4. Eligibility:
Employees hired before January 1, 1994 (certain groups have a date later than January 1, 1994) who complete 15 years of service and retire under the Employees' Retirement System of the County of Milwaukee.
Vested terminated participants are not eligible for life insurance.

5. New Employees: None

6. Annual Rates of Disability (per 100):

Age	
20	0.00
25	0.04
30	0.07
35	0.12
40	0.19
45 and over	0.22

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7. Annual Rates of Retirement (per 100):

Age	Deputy Sheriff	Elected Officials	General Employees
45 – 49	1.0	0.0	0.0
50 – 54	10.0	0.0	7.0
55	15.0	7.0	15.0
56	15.0	7.0	15.0
57	15.0	7.0	15.0
58	15.0	7.0	15.0
59	15.0	7.0	15.0
60	75.0	20.0	20.0
61	75.0	20.0	20.0
62	80.0	45.0	20.0
63	50.0	30.0	20.0
64	50.0	30.0	25.0
65	100.0	40.0	30.0
66	100.0	30.0	30.0
67	100.0	30.0	30.0
68	100.0	30.0	30.0
69	100.0	30.0	30.0
70	100.0	100.0	100.0

8. Salary Increases:

Age	Deputy Sheriff	Elected Officials	General Employees
20	9.5%	3.5%	10.0%
25	9.2%	3.5%	8.2%
30	8.4%	3.5%	5.8%
35	7.4%	3.5%	5.0%
40	5.7%	3.5%	4.6%
45	4.3%	3.5%	4.0%
50	3.4%	3.5%	3.3%
55	3.0%	3.5%	3.0%
60	3.0%	3.5%	3.0%
Average	6.1%	3.5%	3.9%

9. Annual Per-Capita Claim Cost:

Age	Medical
55	\$6,774
60	\$7,479
65 & over	\$4,488

Future claim costs are increased by health care cost trend.

Milwaukee County

Postretirement Medical and Life Valuation as of January 1, 2012

10. Assumed Rate of Return on Plan Assets: N/A

11. Health Care Cost Trend

	Medical
2012	9.0%
2013	8.0%
2014	7.0%
2015	6.0%
2016 and later	5.0%

12. Administrative Expenses:

Included in claim cost

13. Attribution Period:

The attribution period is the portion of a participant's service to which the expected postretirement benefit obligation is assigned. The beginning of the attribution period is the date of hire and the end of the attribution period is the earliest eligibility date.

14. Valuation Date: January 1, 2012

15. Benefits:

Coverage under the Choice Plus Plan for the lifetime of the retiree and spouse. The County reimburses the Medicare Part B premium for current retirees and for Nurses (if retire prior to 12/31/2012) and for Sheriffs and Firefighters.

Life insurance equal to the employee's annual salary at the time of retirement rounded to the next highest \$1,000.

Reduction schedule for life coverage: The original life benefit reduces by 8% per year beginning at age 65 to 25% at age 70 and over.

16. Retiree Contributions:

Medical: Employees hired prior to a key date, with 15 or more years of service get County-paid medical coverage. An employee hired after the key date with 15 or more years of service is eligible for medical coverage but must pay the full premium cost.

It was assumed that 2% of employees will elect retiree medical coverage and pay the full premium cost.

Life: Milwaukee County provides the first \$25,000 (\$20,000 for select bargaining units) for retirees under age 65. The retiree is responsible for the cost of additional coverage at the rate of \$0.34 per thousand. Milwaukee County pays the full premium for retirees age 65 and over.

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17. Monthly Rates:

	Choice Plus Plan
Single Person not on Medicare	\$ 657.87
Family not on Medicare	\$2,249.93
One Person on Medicare	\$ 374.02
Two Persons on Medicare	\$ 785.43
One Medicare/One not Medicare	\$1,069.29
One Medicare/One not Medicare with dependents	\$1,562.99
Two Persons on Medicare with dependents	\$1,279.13

Future rates are increased by health care cost trend.

18. Plan Participation of Future Retirees: 100%

19. Impact of HealthCare Reform: Increase of 0.26% in cost due to the Cadillac Plan Excise Tax.

20. Percent of Future Retirees Who Are Married: 80% of males and 50% of females

21. Age Difference in Spouses: Husband is 3 years older

Section 3.4: Description of GASB 45 Terms

Actuarial Accrued Liability (AAL): That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of OPEB benefits and expenses which is not provided for by future Normal Costs

Actuarial Cost Method (Unit Credit): A method under which the projected OPEB benefit of each individual is allocated equally to years from the date of hire to the date of full eligibility.

Actuarial Present Value of Future Benefits: Total benefits expected to be payable to future and current retirees, spouses and dependents discounted for the time value of money and the probability of paying those benefits

Normal Cost: That portion of the Actuarial Present Value of OPEB benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

Actuarial Accrued Liability: Value of benefits allocated to all periods prior to a valuation year.

Annual Required Contribution (ARC): Normal cost plus the amortization of the AAL adjusted for the timing of payment. GASB 45 does not require that the ARC be funded. However, if the employer contribution is less than the ARC, the deficiency will be amortized over future years and increases the future years' ARC.

Annual OPEB Cost: ARC plus one year's interest on the net OPEB Obligation plus an adjustment to the ARC which is the amortization of cumulative past under- or over-contributions.

Net OPEB Obligation: The cumulative difference between the annual OPEB cost and the contributions to the plan since the adoption of GASB 45 (transition) by the Milwaukee County.

Milwaukee County

Postretirement Medical and Life Valuation as of January 1, 2012

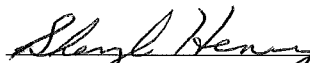
Certification

We have prepared the attached actuarial valuation of the Milwaukee County's Postretirement Medical Benefit Programs in accordance with Statement of Governmental Accounting Standards No. 45.

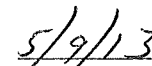
We have based the valuation on financial and census data which were provided to us by the Milwaukee County. We have not audited the data beyond a check for reasonableness.

All costs, liabilities, and other factors associated with the valuation of this plan have been determined in accordance with generally accepted actuarial principles and procedures, and are consistent with the provisions of SGAS 45, including the Actuarial Standard of Practice No. 6 for Measuring Retiree Group Benefit Obligations (American Academy of Actuaries).

The actuarial computations under Statements of Governmental Accounting Standards contained in this report are for the sole purpose of fulfilling employer accounting requirements. The use of the results of this report for other purposes may lead to inappropriate conclusions.



Sheryl Henry, FSA, MAAA



Date

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