

February 10, 2017

Mr. Randall Blum
Finance Director
City of Eastpointe
Eastpointe, Michigan 48021

Dear Mr. Blum:

This report contains the results of an actuarial valuation of the liabilities associated with retiree health benefits provided by the City of Eastpointe Retiree Health Care Fund, together with computed contributions to systematically finance these benefits.

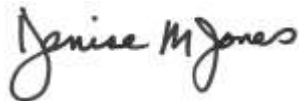
The date of the valuation was July 1, 2016.

The purpose of the actuarial valuation is to:

- Compute the liabilities associated with post-employment health benefits likely to be paid on behalf of current retired, inactive vested and active employees, and
- Compute a pre-funding contribution rate to finance post-employment health benefits as they accrue.

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 report was prepared under the direction of a member of the American Academy of Actuaries who meets the qualification standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,



Denise M. Jones
Senior Consultant



Sandra W. Rodwan
Member, American Academy of Actuaries

***City of Eastpointe
Retiree Health Care Fund***

Actuarial Valuation as of July 1, 2016

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Section One:
Valuation Summary



Purpose of Valuation

The purpose of the annual actuarial valuation of the City of Eastpointe Retiree Health Care Fund as of July 1, 2016 is to:

- ❖ Compute the liabilities associated with post-employment health benefits likely to be paid on behalf of current retired, inactive vested and active participants,
- ❖ Compute a pre-funding contribution rate to finance the benefits as they accrue.

Assumptions Used in the Valuation

The liabilities and pre-funding contribution rate 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 8.0% annual increase for medical care inflation in the first year, decreasing in 0.5% increments over the next 8 years to the ultimate 4.0% assumption. The assumed investment return rate was 7.5%. Please refer to Comments 2 and 3 on pages 4. Liabilities and computed contributions can change significantly in future years depending upon the actual and assumed rates of medical care inflation, investment return, benefit provisions and demographics of the participant group.

Actuarial Accrued Liabilities

Accrued liabilities of the post-employment health benefits as of July 1, 2016, for General members, were computed to be \$15,141,937. Of this amount, \$3,276,686 was attributable to current active and inactive employees and \$11,865,251 was attributable to current retirees. Accrued liabilities of the post-employment health benefits as of July 1, 2016, for Police members, were computed to be \$14,560,086. Of this amount, \$3,706,619 was attributable to current active and inactive employees and \$10,853,467 was attributable to current retirees. Accrued liabilities of the post-employment health benefits as of July 1, 2016, for Fire members, were computed to be \$6,163,745. Of this amount, \$1,804,752 was attributable to current active employees and \$4,358,993 was attributable to current retirees.

Funding Value of Assets

As of July 1, 2016 the asset balance (market value) was reported to be \$7,361,111. This amount was used as the funding value of assets for the purpose of this actuarial valuation.

Computed Annual Required Contribution

The total employer contribution computed to pre-fund the benefits was computed to be \$2,634,835; \$1,085,327 for General, \$1,074,475 for Police and \$475,033 for Fire. There are two components of this, the normal cost and an amortization payment for unfunded actuarial accrued liability. The normal cost contribution was computed to be \$307,532; \$102,778 for General, \$129,682 for Police and \$75,072 for Fire. The amortization payment was computed to be \$2,327,303; \$982,549 for General, \$944,793 for Police and \$399,961 for Fire. The amortization period used was 30 years, level dollars. 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	28	28	16	72
Retirees	93	61	30	184
Inactive Vested Participants	4	1	0	5

Post-Retirement Health Care Rates

Data was submitted concerning health care rates for current individual retirees and beneficiaries and active employees.

A sample of retiree rates is summarized as follows:

Coverage	Monthly Premium	
	Pre-Medicare	Medicare
Single (\$2)	\$619.70	\$497.40
CB2 Single (\$15/\$30)	606.31	435.17
CB4 Single (\$5/\$40/\$80)	490.39	349.89



Section Two:

***Actuarial Calculations –
Funding***



Actuarial Accrued Liabilities

The actuarial accrued liabilities as of July 1, 2016 were computed to be the following:

	General	Police	Fire	Total
Active participants	\$2,551,788	\$3,594,407	\$1,804,752	\$7,950,947
Vested inactive participants	724,898	112,212	0	837,110
Retirees and beneficiaries	<u>11,865,251</u>	<u>10,853,467</u>	<u>4,358,993</u>	<u>27,077,711</u>
Total	15,141,937	14,560,086	6,163,745	35,865,768
Less: Valuation Assets	<u>3,107,740</u>	<u>2,988,321</u>	<u>1,265,051</u>	<u>7,361,111</u>
Unfunded Actuarial Accrued Liabilities	\$12,034,197	\$11,571,766	\$4,898,694	\$28,504,657
Funded Ratio	20.5%	20.5%	20.5%	20.5%

**Computed Annual Required Contribution (ARC) –
Fiscal Year Beginning July 1, 2016**

The computed contribution consists of two components: normal cost and amortization of unfunded actuarial accrued liability. Normal cost was computed from date of hire to date of termination. The normal cost can be considered to be the ongoing cost of the Plan.

The portion of the total present value of future benefits allocated to service already rendered is the actuarial accrued liability. Deducting the valuation assets produces the unfunded actuarial accrued liability. We have amortized the unfunded actuarial accrued liability (UAAL) over 30 years, the maximum period for reporting purposes pursuant to GASB Statements 43 and 45, as level dollar payments.

Actual benefits paid on behalf of retirees may be treated as employer contributions for purposes of the Annual Required Contribution.

Annual Required Contribution				
	General	Police	Fire	Total
Normal Cost – Total	\$102,788	\$129,682	\$75,072	\$307,532
- Employee Contribution	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
- Net	\$102,788	\$129,682	\$75,072	\$307,532
Unfunded Actuarial Accrued Liability	<u>982,549</u>	<u>944,793</u>	<u>399,961</u>	<u>2,327,303</u>
Annual Required Contribution	\$1,085,327	\$1,074,475	\$475,033	\$2,634,835

Comments

Comment 1: Governmental Accounting Standards Board (GASB) Statements 43 and 45 concern financial reporting for “other post employment 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 a lower assumed rate of investment return, reflecting the assumed rate of return on the City’s General Fund, be used to compute the liabilities and Annual Required Contribution. This will increase the liabilities, ARC, and the OPEB obligation that must be reported in the financial statements. 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 (7.5%) based upon the assumption that the employer will contribute the actuarially determined annual required contribution. If a lower rate of investment return is assumed, the liabilities and ARC would be greater. If a higher rate of investment return is assumed the liabilities and ARC would be lower.

Comment 3: Liabilities for health benefits are highly dependent upon the underlying assumptions concerning medical care inflation and the investment return rate. For the purposes of this valuation, we assumed an 7.5% investment return rate and a 8.00% annual medical care inflation rate in the first year, decreasing over the following 8 years to the ultimate assumed rate of 4.0%. Liabilities and computed contributions would be greater if a higher medical care inflation rate is assumed or a lower investment return rate. Liabilities and computed contributions would be less if a lower medical care inflation rate is assumed or a higher investment return rate. If the employer does not plan to contribute the Annual Required Contribution, the assumed rate of investment return would be lower.

Section Three:
Benefit Provisions



Benefit Provision Summary

Normal Retirement Eligibility for Retiree Health Care Benefits:

General members hired prior to January 1, 1992 – A minimum of ten years of service.

General members hired after January 1, 1992 – 20 or more years of service in force.

Police & Fire members retiring after January 1, 1992 – 20 or more years of service in force.

General members hired after February 17, 2009 are not eligible. Police members hired after July 1, 2012, are not eligible. Fire members hired after July 1, 2011, are not eligible.

Health Care Benefits Provided by the Plan:

Member: City pays 100% of the retiree health care premiums for core plan; additional cost of any optional program above core plan shall be paid by the retiree.

Spouse: City pays 100% of the retiree health care premiums for core plan as long as the spouse continues to receive a pension and does not remarry. Additional cost of any optional program above core plan shall be paid by the retiree/spouse.

Dependent: City pays 100% of the retiree health care premiums for core plan to age 26. Additional cost of any optional program above core plan shall be paid by the retiree/spouse.

Deferred Retirement Eligibility for Retiree Health Care Benefits:

General members hired prior to January 1, 1992 – A minimum of ten years of service.

General members hired after January 1, 1992 – 20 or more years of service in force.

Police & Fire members retiring after January 1, 1992 – 20 or more years of service in force.

Deferred Health Care Benefits Provided by the Plan:

Member: City pays 100% of the retiree health care premiums for core plan; additional cost of any optional program above core plan shall be paid by the retiree.

Spouse: City pays 100% of the retiree health care premiums for core plan as long as the spouse continues to receive a pension and does not remarry. Additional cost of any optional program above core plan shall be paid by the retiree/spouse.

Dependent: City pays 100% of the retiree health care premiums for core plan to age 26. Additional cost of any optional program above core plan shall be paid by the retiree/spouse.

Health Care benefits commence when deferred retirement benefits commence.

Duty Disability Retirement Eligibility for Retiree Health Care Benefits:

Eligibility:

No age or service requirements

Benefit:

Member: City pays 100% of the retiree health care premiums.

Spouse: City pays 100% of the retiree health care premiums.

Non-Duty Disability Retirement Eligibility for Retiree Health Care Benefits:

Eligibility:

General members hired prior to January 1, 1992 – Any age with 10 or more years of service. Benefit commences upon eligibility for non-duty disability retirement benefits.

Benefit:

Members with 10 or more years of service the City pays 100% of the retiree health care premiums. Spouses receive the same benefit.

Eligibility:

General members hired after January 1, 1992 and Police & Fire members retiring after January 1, 1992 – Any age with 20 or more years of service. Benefit commences upon eligibility for non-duty disability retirement benefits.

Benefit:

Members with 20 or more years of service the City pays 100% of the retiree health care premiums. Spouses receive the same benefit.

Members with less than 20 years of service the City pays partial premiums in an amount equal to two and one-half percent (2½%) per year of the retiree's service with the City. Spouses receive the same benefit.

Duty Death Retirement Eligibility for Retiree Health Care Benefits:

Eligibility:

No age or service requirements

Benefit:

Spouse: City pays 100% of the retiree health care premiums.

Non-Duty Death Retirement Eligibility for Retiree Health Care Benefits:

Eligibility:

General members hired prior to January 1, 1992 – Any age with 10 or more years of service. Benefit commences upon eligibility for non-duty death retirement benefits.

Benefit:

Spouse: 100% of the retiree health care.

Eligibility:

General members hired after January 1, 1992 and Police & Fire members retiring after January 1, 1992 – Any age with 20 or more years of service. Benefit commences upon eligibility for non-duty death retirement benefits.

Benefit:

Spouse: Members with 20 or more years of service the City pays 100% of the retiree health care premiums.

Spouse: Members with less than 20 years of service the City pays partial premiums in an amount equal to two and one-half percent (2½%) per year of the retiree's service with the City.

Benefits for Spouses of Retired Employees

Spouses of retired employees are eligible to receive retiree health care benefits. Coverage continues to surviving spouses or deceased retirees who continue to receive a retirement benefit from the City.

Non-Medicare and Medicare Eligible Provisions

Retirees are required to enroll in Medicare once eligible. Retiree pays Medicare premiums.

Vision Coverage

Vision coverage is not available upon retirement.

Dental Coverage

Eligibility:

General members who retire as a non-union Administrator and meet retiree health care eligibility conditions may receive dental benefits.

Benefits:

Member and Spouse - the City pays 100% of the retiree dental coverage.

Life Insurance Coverage

Life insurance coverage is not available upon retirement.

Note: This summary of eligibility conditions and benefits is a brief outline. In case of any differences between this summary and actual eligibility conditions and benefits, the applicable contract or legal document would take precedence.



Section Four:

***Actuarial Assumptions
And Methods***



Actuarial Assumptions

Economic Assumptions

(i) Interest Rate	7.5% (net of expenses)
(ii) Medical Inflation Rate	8.0%, graded down to 4.0% over 8years
(iii) Salary Increases	
Across-the-Board	4.0%
Merit and Longevity	Age related rates

Demographic Assumptions

(i) Mortality

RP-2000 Combined Healthy
Mortality Table projected to 2014

Sample Ages	Future Life Expectancy (Years)	
	Men	Women
55	27.54	29.67
60	23.01	25.00
65	18.75	20.79
70	14.87	16.86
75	11.33	13.29
80	8.26	10.00

(ii) Disability

Sample Ages	Percent Becoming Disabled within Next Year	
	Men	Women
20	0.10%	0.04%
25	0.13	0.07
30	0.14	0.11
35	0.21	0.19
40	0.30	0.27
45	0.46	0.40
50	0.74	0.63
55	1.29	1.07
60	2.14	1.55
65	2.31	1.38

(iii) Termination of Employment

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

Sample Ages	Years of Service	Members Separating Within the Year		
		General Members	Police	Fire
ALL	0	20.00%	12.00%	10.00%
	1	15.00	9.00	7.00
	2	10.00	7.00	5.00
	3	8.00	5.00	4.00
	4	7.00	4.50	3.50
20	5 & Over	6.00	4.50	3.50
25		6.00	4.50	3.50
30		5.50	3.90	2.90
35		4.40	2.30	1.50
40		1.85	0.90	0.60
45		1.25	0.50	0.50
50		1.25	0.50	0.50
55		1.25	0.50	0.50
60		1.25	0.50	0.50

(iv) Retirement Rates

Age-related rates

**Active Members Retiring within Year
Following Attainment of Indicated Retirement Age**

Age Retiring	Percent Retiring			
	General		Police	Fire
	General (Pre '98)	General (Post '98)		
50	15%	15%	35%	20%
51	10	10	25	15
52	5	5	20	10
53	5	5	15	10
54	5	5	15	10
55	5	5	15	10
56	5	5	15	10
57	5	5	15	15
58	5	5	25	25
59	5	5	30	30
60	5	5	100	100
61	5	5	100	100
62	30	30	100	100
63	10	10	100	100
64	10	10	100	100
			100	100
65	100	100	100	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 level dollar payments over 30 years.



Section Five:
Valuation Data



Financial Information

The market value of assets was reported to be \$7,361,111 as of June 30, 2016. The market value was used as the funding value of assets.

Revenues and Expenses for Year Ended June 30, 2016	
<u>Revenues</u>	
Member contributions	\$0
Employer contributions	3,066,262
Investment Income	<u>7,821</u>
Total Revenue	\$3,074,083
<u>Expenses</u>	
Post-retirement health benefits	\$2,245,168
Expenses	<u>11,118</u>
Total Expenses	\$2,256,286

Participant Summary

Retirees and Beneficiaries

As of June 30, 2016, there were 184 retirees included in the valuation.

Retirees and Beneficiaries				
June 30, 2016				
<u>Attained</u> <u>Age</u>	<u>General</u>	<u>Police</u>	<u>Fire</u>	<u>Total</u>
45-49		2		2
50-54	1	7	2	10
55-59	10	11	6	27
60-64	19	8	7	34
65-69	11	11	6	28
70-74	14	8	1	23
75-79	11	6	1	18
80-84	11	4	2	17
85-89	8	2	4	14
90-94	6	2	1	9
95-99	1			1
100-104	1			1
Total	93	61	30	184

Active Participants

As of June 30, 2016, there were 72 active employees.

	General	Police	Fire	Total
Number	28	28	16	72
Averages				
Age	49.9	43.6	45.1	46.3
Service	15.3	16.9	16.2	16.1

**Total Active Members - June 30, 2016
Age and Service Distribution**

Attained Age	5-9	10-14	15-19	20-24	25-29	Totals
25-29	1					1
30-34	4	1				5
35-39	5	5	1			11
40-44	2	3	6	2		13
45-49	1	2	5	11	1	20
50-54		3	4	2	1	10
55-59		1	4	1		6
60-64	1	1	2	1		5
65-69			1			1
Totals	14	16	23	17	2	72

Group Averages:

Age: 46.3 years
Service: 16.1 years

**General Active Members - June 30, 2016
Age and Service Distribution**

Attained Age	5-9	10-14	15-19	20-24	25-29	Total
25-29	1					1
30-34		1				1
35-39	1	1	1			3
40-44	1	1	4			6
45-49	1	1			1	2
50-54		1	3			4
55-59		1	3	1		5
60-64	1	1	2	1		5
65-69			1			1
Totals	13	11	10	3	1	28

Group Averages:

Age: 49.9 years
Service: 15.3 years

**Police Active Members - June 30, 2016
Age and Service Distribution**

Attained Age	0-4	5-9	10-14	15-19	20-24	25-29	Total
30-34		3					3
35-39		2	3				5
40-44			1	1	2		4
45-49				3	9	1	13
50-54			2		1		3
Totals		5	6	4	12	1	28

Group Averages:

Age: 43.6 years
Service: 16.9 years

**Fire Active Members - June 30, 2016
Age and Service Distribution**

Attained Age	5-9	10-14	15-19	20-24	25-29	Total
30-34	1					1
35-39	2	1				3
40-44	1	1	1			3
45-49		1	2	2		5
50-54			1	1	1	3
55-59			1			1
Totals	4	3	5	3	1	16

Group Averages:

Age: 45.1 years
Service: 16.2 years

Inactive Vested Members

As of June 30, 2016, there were 5 inactive vested members included in the valuation.

**Inactive Vested Members -
June 30, 2016**

Attained	
Age	No.
45	1
49	2
50	1
54	1
Totals	5