

RAMSEY COUNTY

January 1, 2007 Actuarial Valuation
of the Postemployment Benefits Other Than Pension Benefits

May, 2007

RAMSEY COUNTY

January 1, 2007 Actuarial Valuation of the Postemployment Benefits Other Than Pension Benefits

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Preparation of this Actuarial ValuationActuarial Certification

Ramsey County (the County) hired Van Iwaarden Associates to perform an actuarial valuation of the County's severance, retiree medical, and retiree dental plans.

This material has been prepared primarily to present County administrators and the County Board with information on the postemployment benefit obligations of the plans for financial reporting purposes. It is important to recognize that calculations performed for other purposes, such as termination of the plans, may yield significantly different results.

In conducting the valuation, we have used:

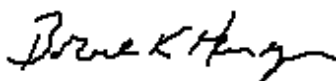
- the provisions of the substantive plans in effect as of January 1, 2007,
- the personnel data as of January 1, 2007, and
- the claims information through September 30, 2006.

All claims and census data were provided by County personnel.

The claims information and census data was used with a review of reasonableness but without formal audit. The health care claims cost analysis was performed in conjunction with Health Risk Strategies, LLC.

In our opinion, the actuarial valuation was conducted in accordance with generally accepted actuarial principles and practices. The purpose of the valuation was to provide Ramsey County with the information necessary to comply with Governmental Accounting Standard Nos. 43 and 45 (GASB 43 and GASB 45). In our opinion, the valuation was conducted in accordance with those accounting standards. The actuarial assumptions are based on management's best estimate with regard to individual assumptions.

We are available to answer questions on the material contained in the report or to provide explanations or further detail, as may be appropriate.



Brenda K. Hardy, ASA, MAAA
Consulting Actuary



Peter J. Cullen, EA
Consulting Actuary

May 29, 2007

*January 1, 2007 Actuarial Valuation of the Postemployment Benefits Other Than Pension Benefits***Summary of results*****A. Valuation Census Data (see page 3)***

January 1, 2007

1. Active employees	3,537
2. Covered retirees and beneficiaries	1,597
3. Total	5,134

B. GASB 43 and GASB 45 Results

1. Benefit obligations (see page 4)	
a. Present value of OPEB benefits	\$403,024,043
b. Actuarial Accrued Liability (AAL)	315,651,119
c. Normal cost (beginning of year)	7,687,310
d. Expected retiree claims over retiree contributions during year (see page 7)	11,605,759
2. Annual Required Contribution (see page 7)	29,213,298
3. Net OPEB Obligation (see page 7)	To Be Determined

C. Key economic assumptions (see page 12)

1. Discount rate for liabilities	5.25%
2. Health care cost trend rate	8.5% to 5.0% in 7 years

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Valuation Census Data

This section presents the demographic information for the active and retired participants included in the postemployment medical benefit valuation. The actuarial valuation was based on January 1, 2007 census data provided by the County. The following chart summarizes the personnel characteristics of the data used for the study.

	Family <u>Coverage</u>	Single <u>Coverage</u>	<u>Total</u>
<u>A. Retired Participants and Widow(er)s</u>			
1. Number under age 65	184	345	529
2. Number over age 65	<u>387</u>	<u>681</u>	<u>1,068</u>
3. Total (1. + 2.)	571	1,026	1,597
4. Average Age			70.7

<u>B. Active Participants</u>	<u>Total</u>
1. Number eligible to receive benefits	806
2. Number not eligible to receive benefits*	<u>2,731</u>
3. Total	3,537
4. Average Age	46.0

*Participants who have not yet reached the retirement age and service requirements.

<u>C. Total Participants</u>	5,134
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Statement of Plan's Benefit ObligationsJanuary 1, 2007

1. Total actuarial present value of benefits				\$536,171,320
2. Present value of future employee contributions				<u>133,147,277</u>
3. Total County-funded actuarial present value (1. - 2.)				403,024,043
4. Postemployment benefit obligation attributable to future service				<u>87,372,924</u>
5. Total Actuarial Accrued Liability (AAL) (3. - 4.)				315,651,119
6. Breakdown of AAL		<u>Pre 65</u>	<u>Post 65</u>	<u>Total</u>
a. Retirees under age 65	27,883,710		51,597,339	79,481,049
b. Retirees over age 65		N/A	80,176,043	80,176,043
c. Actives	<u>51,973,538</u>		<u>104,020,489</u>	<u>155,994,027</u>
d. Total (a. + b. + c.)	79,857,248		235,793,871	315,651,119
7. Breakdown of Active AAL				
a. Eligible to receive benefits				74,547,179
b. Not eligible to receive benefits				<u>81,446,848</u>
c. Total (a. + b.)				155,994,027

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Accounting Requirements

This section presents the actuarial calculations used to fulfill the applicable accounting requirements for the plan.

Accounting Information under GASB 43 and GASB 45

The Governmental Accounting Standards Board (GASB) finalized Statements No. 43 (GASB 43) and 45 (GASB 45) in April 2004 and June 2004 respectively. The statements' objectives are to establish uniform standards of financial reporting by local and state governmental entities for postemployment benefit plans other than pension benefits (OPEB plans). This includes benefits such as postemployment healthcare benefits and life insurance.

For OPEB plans sponsored by governmental entities, these GASB Statements require certain standards and disclosures of plan and fund information including financial reporting of plan assets, liabilities of plan, changes in net assets, funded status and funding progress of the plan, and contributions to the plan in comparison to the annual required contributions of the employer (ARC).

Valuing Postemployment Health Benefits

In reviewing these valuation results, it should be noted that determining the value of future health care benefits is challenged by the fact that assumptions must be made about many future events that are especially hard to predict. In general, future increases in health care costs for many plans are affected by many factors, including:

- Medical inflation
- Changes in utilization patterns
- Technological advances
- Cost shifting (i.e., increases in private plans' costs in non-managed programs due to uninsured claims, changes in the Medicare payment structure, and increased emphasis on managed care programs)
- Cost leveraging (i.e., erosion of fixed deductibles and out-of-pocket maximums)
- Changes to government medical programs, such as Medicare, when applicable. Under the Medicare Modernization Act of 2003 (MMA), a new prescription drug program called Medicare Part D was established.

One of the County's health plans available to Medicare-eligible retirees experienced reduced premiums in 2006 due to the reduction in cost for prescription drugs. Under the two other plans, Ramsey County will apply for a Federal subsidy for a portion of the plan's prescription drug cost.

GASB's Technical Bulletin issued June 30, 2006, Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D, indicates that the GASB 43/45 actuarial accrued liability should be calculated as the full cost of the plan, ignoring any expected Federal subsidy. Payments made to the County should be reported as revenue.

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Accounting Requirements (continued)

OPEB obligations are also heavily influenced by demographic assumptions such as:

- Withdrawal rates (i.e., employees terminating before receiving benefits)
- Retirement rates (i.e., employees retiring at various ages and subsidy levels)
- Participation (i.e., retirees electing coverage, the percentage married, and elections to contribute for coverage of spouses)
- Mortality rates (i.e., how long employees and spouses will receive benefits)

The Actuarial Assumptions section outlines the assumptions used in this valuation. The withdrawal rates, termination rates, mortality rates, and disability rates were based on assumptions recommended for use for the Minnesota PERA retirement plan. A study of the demographic experience from July 1, 2000 to June 30, 2004 was performed by the firm who performs the PERA actuarial valuations. The firm made recommendations based on the results of the experience study.

We will continue to monitor the individual experience of Ramsey County as we perform valuations in later years and make revisions if warranted.

Participation rates were based on the experience of the County and expectation of future participation decreases due to plan changes.

Estimating Health Care Costs

In addition to estimating future increases in health care claims costs, it is necessary to develop a starting claims cost value on a per covered individual basis for self-insured plans and even some insured plans.

For insured plans, the premiums represent a blended average cost of both active and retired individuals. Since older, pre-65 retirees generally incur higher claims than younger active employees, GASB requires employers to value retiree liability based on estimated retiree costs rather than premiums. Age-adjusted claims are developed and used to value the retiree medical liability.

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Schedule of Funding Progress and ARC

The following tables show the balance sheet and income statement figures if County were to follow GASB 43 accounting for 2006. The unfunded accrued liability was amortized as a level dollar amount over 30 years. Assumptions and methods used are described in subsequent sections.

Retiree Medical**A. Schedule of funding progress**

1. Actuarial valuation date	January 1, 2007
2. Actuarial accrued liability (AAL)	\$315,651,119
3. Plan assets at fair value	0
4. Unfunded AAL (UAAL) (2. - 3.)	315,651,119
5. Funded ratio (3. / 2.)	0.00%
6. Covered payroll	184,854,555
7. UAAL as a percentage of covered payroll (4. / 6.)	170.76%

B. Annual Required Contribution (ARC)

1. Normal cost	7,687,310
2. Amortization of Transition Obligation	20,068,793
3. Amortization of Net OPEB Obligation	0
4. Interest to the end of the year	<u>1,457,195</u>
5. Total ARC	29,213,298

C. Annual OPEB Cost

1. Annual required contribution as of December 31, 2007	29,213,298
2. Interest on net OPEB obligation	0
3. Adjustment to ARC	<u>0</u>
4. Annual OPEB cost (expense) (1. + 2. + 3.)	29,213,298

D. Net OPEB Obligation

1. Net OPEB obligation as of December 31, 2006	0
2. Annual OPEB cost	29,213,298
3. Contributions made	
a. Payments for retirees	To Be Determined
b. Adjustment for active employees (age-adjusted versus pooled premiums)	To Be Determined
c. Other contributions	<u>To Be Determined</u>
d. Total contributions	To Be Determined
4. Net OPEB obligation as of December 31, 2007 (1. + 2. - 3.d.)	To Be Determined

Notes

Expected retiree claims paid over the 2007 fiscal year net of retiree contributions	\$11,605,759
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Projection of the County's Annual Retiree Medical Costs

	Retiree Medical			
	(a)	(b)	(c)	(a) - (b) - (c)
<u>Year</u>	<u>Total Annual Retiree Costs</u>	<u>Retiree Paid Premiums</u>	<u>County Paid Premiums</u>	<u>Implicit Subsidy</u>
2008	\$13,436,812	\$1,831,053	\$10,700,528	\$905,231
2009	14,910,394	2,171,706	11,744,677	994,011
2010	16,614,413	2,533,720	12,875,694	1,204,999
2011	18,372,014	2,954,970	13,981,857	1,435,187
2012	20,163,574	3,387,536	15,094,887	1,681,151
2013	21,416,512	3,753,314	15,980,268	1,682,930
2014	22,823,730	4,161,705	16,938,049	1,723,976
2015	24,173,369	4,616,028	17,776,768	1,780,573
2016	25,316,709	5,061,172	18,457,272	1,798,265
2017	26,472,954	5,475,794	19,207,560	1,789,600
2018	27,840,518	5,948,873	20,050,675	1,840,970

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Summary of Plan Provisions

This section describes the "substantive plans" upon which the valuation was based. This summary reflects relevant provisions used as the basis for the actuarial valuation.

Post-Employment Medical

Eligibility for Participation

- Employee of Ramsey County who is covered by an employment contract which provides for postemployment medical benefits.
- Employee eligible to participate in insurance program at the time of retirement.
- Employee who is eligible to begin receiving benefits under PERA at the time they leave Ramsey County.

PERA Eligibility Requirements

Age 55 with 3 years of service, age 65 with 1 year of service, any age with 30 years of service (if enrolled in PERA prior to 7/1/1989), any age if eligible for PERA disability, or age 50 with 3 years of service if in PERA Police and Fire Plan

Benefits:

Employees hired before July 1, 1992 with 20,800 hours of service or (10,400 hours of service if retiring under PERA disability)

County pays full defined county contribution

Employees hired between July 1, 1992 and January 1, 2006 with 41,600 hours of service (excluding those who made a one-time election to participate in Health Care Savings Plan)

County pays 50% of defined county contribution for 20 years of service, plus an additional 4% per year of service beyond 20, up to a maximum of 90% of the defined county contribution

Other eligible participants who do not meet years of service requirements or hired after January 1, 2006

Retiree may continue medical coverage by paying the full premium

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Summary of Plan Provisions (continued)Defined County Contribution:

Retirees under age 65	County pays same contribution as paid for active employees (in 2007 participant pays \$21 per month for single coverage and \$360.65 for family coverage)
Retirees over age 65 who retired before January 1, 1996	County pays full premium
Retirees over age 65 who retired on or after January 1, 1996	County pays contribution not exceeding the county contribution for active employees, except member will pay at least \$25 per month for single coverage and at least \$55 per month for family coverage

2007 Monthly Premiums

<u>Before Age 65</u>	<u>Premium</u>
<u>HealthPartners Distinctions</u>	
Single	\$570.34
Family (spouse with Medicare A & B)	848.04
Family	1,357.39
 <u>After Age 65</u>	
<u>HealthPartners Freedom</u>	
Single (Medicare A & B)	277.70
Family (spouse with Medicare A & B)	555.40
Family (spouse without Medicare A & B)	848.04
 <u>HealthPartners Major Medical</u>	
Single	500.12
Family	1,000.24
 <u>UCare for Seniors</u>	
Single (Medicare A & B)	212.00
Two-party (spouse with Medicare A & B)	424.00

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Summary of Plan Provisions (continued)

Post-Employment Dental Insurance

Members eligible for postemployment medical benefits may also continue dental coverage by paying the full premium provided they have coverage at time of retirement.

2007 Monthly Dental Premiums

	<u>Premium</u>
Single Coverage	\$41.35
Family Coverage	92.05

Severance

Contract

General County, Community Human Services, Licensed Practical Nurses, Workforce Solutions, Lake Owasso Residence, Ramsey Nursing Home, Parks and Recreation, and Public Health Registered Nurses

Severance Benefit

Option A: daily pay times one-half of unused sick days* up to a maximum of \$13,000

Option B: \$210 per year of service for years 1 through 10 plus \$280 per year for years 11 through 20 plus \$350 per year for years over 20, up to a maximum of \$7,000

Requirements

Option A: 10 years of service with at least 480 hours of unused accumulated sick leave

Option B: 20 years (41,600 hours) of service

*Employees are assumed to accumulate future unused sick leave based on the current average of unused sick days of the eligible group. It was assumed each employee would accrue 35 hours of sick leave per year.

Because GASB 43/45 only applies to severance option B, we have not included severance liability when option A is projected to be larger than option B.

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Actuarial Assumptions

This section describes the actuarial assumptions and methods used in this valuation of postemployment benefit costs.

Discount Rate 5.25% per year

Expected Monthly Medical Costs	Sample rates:	
	<u>Age</u>	<u>Cost</u>
	30	\$270.11
	35	314.65
	40	366.54
	45	426.99
	50	497.40
	55	596.49
	60	718.77
	65+	Actual premium

Expected Monthly Dental Costs	Sample rates:	
	<u>Age</u>	<u>Cost</u>
	30	\$33.89
	35	35.62
	40	37.44
	45	39.35
	50	41.35
	55	43.46
	60	45.68
	65	48.01
	70	49.22
	75	50.47

Health Care Trend Rates	<u>Fiscal Year</u>	<u>Trend Rates</u>
	2007	8.5%
	2008	8.0%
	2009	7.5%
	2010	7.0%
	2011	6.5%
	2012	6.0%
	2013	5.5%
	2014+	5.0%

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Actuarial Assumptions (continued)

Salary Increase	Salaries are assumed to increase 4% each year
Severance Benefit	The limits and per unit credits for severance benefits are assumed to remain constant.
Participation Rate	<p>100% of active participants hired before 7/1/1992 are assumed to elect postemployment medical coverage. 40% of these participants are assumed to elect coverage for a spouse</p> <p>85% of active participants hired between 7/1/1992 and 1/1/2006 with 41,600 hours of service are assumed to elect postemployment medical coverage. 40% of these participants are assumed to elect coverage for a spouse.</p> <p>50% of active participants hired between 7/1/1992 and 1/1/2006 with less than 41,600 hours of service are assumed to elect postemployment medical coverage. 20% of these participants are assumed to elect coverage for a spouse.</p> <p>50% of active participants who were either hired after 1/1/2006 or chose the HCSP are assumed to elect postemployment medical coverage. 20% of these participants are assumed to elect coverage for a spouse.</p> <p>60% of active participants are assumed to elect postemployment dental coverage.</p> <p>Early retirees are assumed to continue with current coverage until age 65, at which time they are assumed to elect coverage available to retirees over age 65.</p> <p>At age 65, 80% of retirees are assumed to elect HealthPartners Freedom, 18% are assumed to elect HealthPartners Major Medical, and 2% are assumed to elect UCare for Seniors.</p>

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Actuarial Assumptions (continued)

Participation Rate (continued)

Those currently over age 65 are assumed to continue coverage until death.

Only those currently electing coverage are assumed to elect future coverage.

Spouse Ages

Husbands are assumed to be three years older than wives.

Retirement Rates

<u>Age</u>	Age plus service at least 90 and eligible for PERA <u>early retirement subsidy</u>	<u>Other</u>
55	30%	7%
56 – 58	25%	7%
59 – 60	25%	9%
61	30%	15%
62	40%	22%
63 – 64	30%	20%
65	40%	40%
66 – 70	25%	25%
71	100%	100%

Mortality

	<u>Male</u>	<u>Female</u>
Pre-retirement:	83 GAM male table set back 8 years	83 GAM female table set back 7 years
Post-retirement:	83 GAM male table set back 1 year	83 GAM female table set back 1 year

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Actuarial Assumptions (continued)

Withdrawal

Rates varying by age. Sample withdrawal rates are as follows:

<u>Age</u>	<u>Male</u>	<u>Female</u>
20	8.4%	8.4%
30	5.4%	5.4%
40	3.0%	3.5%
50	2.0%	2.5%

Higher turnover rates are assumed in the first three years of employment. 40% of employees with less than 1 year of service, 15% of employees with 1 - 2 years of service, and 10% of employees with 2 - 3 years of service are assumed to terminate employment.

Disability

Sample rates:

<u>Age</u>	<u>Male</u>	<u>Female</u>
20	0.01%	0.01%
30	0.02%	0.02%
40	0.09%	0.06%
50	0.23%	0.16%

Actuarial Methods

Actuarial Method	Projected Unit Credit
Calculation Date	January 1, 2007
Attribution Period for Obligations	Attribution period begins on date of hire and ends at decrement.
Actuarial Value of Assets	Market value
Amortization of the Unfunded Actuarial Accrued Liability	Amortized as a level dollar amount over 30 years.

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Glossary of Selected Terms

This section provides the definitions of applicable terminology in the actuarial valuation, with references to both the Governmental Accounting Standards Nos. 43 (GASB 43) and 45 (GASB 45).

Actuarial Cost Method - a procedure for determining the actuarial present value of benefits and for developing an allocation of such value to time periods.

Actuarial Present Value - the value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a set of actuarial assumptions.

Actuarial Accrued Liability - the portion of the actuarial present value which is not provided for by future normal costs, determined under the actuarial cost method.

ARC - the annual required contribution of the employer.

Discount Rate - The interest rate used to adjust liabilities and obligations for the time value of money.

Measurement Date - The date as of which assets and liabilities are measured in determining the OPEB liability of the plan.

Net OPEB obligation - the OPEB liability (asset) at transition, if any and the cumulative difference since the effective date of Statement No. 45 between annual OPEB cost and the employer's contributions.

Normal Cost - The portion of the actuarial present value which is allocated to the valuation year by the actuarial cost method.

GASB Statement No. 43 - the Governmental Accounting Standards Statement Financial Reporting for Postretirement Benefit Plans Other Than Pension Plans

GASB Statement No. 45 - the Governmental Accounting Standards Statement Accounting and Financial Reporting for Postretirement Benefits Other Than Pensions