

CITY OF WASHINGTON
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MEMORANDUM

TO: Mayor Manier and City Council
FROM: Joanie Baxter, Controller *JEB*
DATE: April 28, 2017
SUBJECT: Retiree Health Insurance Actuarial Valuation Report

The City began funding our Retiree Health Insurance liability on an annual basis in 2008. Prior to that time, it was funded on a "pay as you go" basis. Actuarial valuations are required to project the liability and determine the annual required contribution (ARC). Such valuations are good for three years and the last one was done for FY 2013-14. Accordingly, an updated valuation is due for FY 2016-17 to set the contribution funding amount for the next few years.

Attached is the Actuarial Valuation Report for the year beginning May 1, 2016 and ending April 30, 2017 as completed by our new actuary, Foster & Foster. The ARC as required by the report is \$175,380 and thus this is the funding that was made by the City toward the Retiree Health Insurance program in FY 2016-17. This compares to funding of \$168,368 that has been in place for the previous three years.

The acceptance of this report and placement on file is an item on the Consent Agenda for the May 1, 2017 City Council meeting. Please contact me prior to the meeting if you have questions.

C: Jim Culotta, City Administrator
Ellen Dingledine, City Treasurer

CITY OF WASHINGTON
OTHER POSTEMPLOYMENT BENEFITS PROGRAM

ACTUARIAL VALUATION
AS OF APRIL 30, 2016

CONTRIBUTIONS APPLICABLE TO THE
PLAN/FISCAL YEAR ENDING
APRIL 30, 2017



FOSTER & FOSTER
ACTUARIES AND CONSULTANTS



April 24, 2017

City of Washington
c/o Joan Baxter, Controller
301 Walnut St.
Washington, IL 61571

Re: City of Washington - April 30, 2016 OPEB Report

Dear Ms. Baxter:

We are pleased to present to the City of Washington this report of the annual actuarial valuation of the City of Washington's Other Postemployment Benefits (OPEB) Program. This valuation was performed to determine annual expenses associated with providing OPEB benefits, the current funded status of the Plan, and to provide all schedules required to comply with the Governmental Accounting Standards Board No. 45. This valuation has been performed utilizing the Alternative Measurement Method for small plans as permitted under the Governmental Accounting Standards Statement No. 45.

The valuation has been conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board, and reflects all applicable federal laws and regulations. In our opinion, the assumptions used in this valuation, as adopted by the City of Washington, represent reasonable expectations of anticipated plan experience.

In conducting the valuation, we have relied on personnel and plan design information supplied by the City of Washington, and the actuarial assumptions and methods described in the Actuarial Assumptions section of this report. While we cannot verify the accuracy of all this information, the supplied information was reviewed for consistency and reasonableness. As a result of this review, we have no reason to doubt the substantial accuracy of the information and believe that it has produced appropriate results. This information, along with any adjustments or modifications, is summarized in various sections of this report.

The undersigned is familiar with the immediate and long-term aspects of OPEB valuations, and meets the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. All the sections of this report are considered an integral part of the actuarial opinions.


To our knowledge, no associate of Foster & Foster, Inc. working on valuations of the program has any direct financial interest or indirect material interest in the City of Washington, nor does anyone at Foster & Foster, Inc. act as a member of the Board of Commissioners of the City of

Washington. Thus, there is no relationship existing that might affect our capacity to prepare and certify this actuarial report.

If there are any questions, concerns, or comments about any of the items contained in this report, please contact Aimee at 239-433-5500.

Respectfully submitted,

Foster & Foster, Inc.

By: 
Aimee M. Strickland, FSA, EA, MAAA

AMS\aw

Enclosures

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SECTION 1 –Introduction

SECTION 1 - INTRODUCTION EXECUTIVE SUMMARY

The annual actuarial valuation of the City of Washington Other Postemployment Benefits (OPEB) Program, based on the actuarial valuation performed as of April 30, 2016, has been completed and the results are presented in this Report. For purposes of this valuation, Medical and Dental Insurances were taken into consideration. The results of this valuation are applicable to the plan/fiscal year ending April 30, 2017.

The following table shows the components of the City of Washington's Net OPEB Obligation:

Valuation Date	4/30/2016
Applicable for Fiscal Year Ending	<u>4/30/2017</u>
Annual Required Contribution	\$ 175,380
As a Percent of Covered Payroll	3.9%
Interest on Net OPEB Obligation	\$ 30
Adjustment to Annual Required Contribution	<u>(26)</u>
Annual OPEB Cost (Expense)	\$ 175,384
Estimated Net Contributions Made	<u>(263,659)</u>
Increase (Decrease) in Net OPEB Obligation	\$ (88,275)
Net OPEB Obligation - Beginning of Year (as reported)	\$ 756
Adjustment to Net OPEB Obligation - Beg. of Year	<u>0</u>
Estimated Net OPEB Obligation – End of Year	\$ (87,519)

SECTION 1 –Introduction

The numbers shown above do not reflect a decision to fund the program. Therefore, the contributions made to the program are assumed to be the benefits paid to retirees and administrative expenses.

The balance of this Report presents additional details of the actuarial valuation and the general operation of the Fund. The undersigned would be pleased to meet with the Board of Trustees in order to discuss the Report and any pending questions concerning its contents.

Respectfully submitted,

FOSTER & FOSTER, INC.

By: Aimee M. Strickland
Aimee M. Strickland, FSA, MAAA

SECTION 1 – Introduction

GLOSSARY OF ACTUARIAL TERMS

Actuarial Present Value is the 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. For purposes of this standard, each such amount or series of amounts is:

1. adjusted for the probable financial effect of certain intervening events
2. multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and
3. discounted according to an assumed rate (or rates) of return to reflect the time value of money.

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

Total Annual Payroll is the annual rate of pay for the fiscal year prior to the valuation date of all covered members.

Present Value of Benefits is the single sum value on the valuation date of all future benefits to be paid to current Members, Retirees, Beneficiaries, Disability Retirees and Vested Terminations.

Normal (Current Year's) Cost is the portion of the Actuarial Present Value of plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

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

SECTION 1 – Introduction

Unfunded Actuarial Accrued Liability (UAAL) is a liability which arises when a plan is initially established or improved and such establishment or improvement is applicable to all years of past service. Under the Entry Age Normal Actuarial Cost Method, there is also a new UAAL created each year equal to the actuarial gain or loss for that year.

Annual Required Contribution (ARC) represents the level of employer contribution effort that would be required on a sustained, ongoing basis to:

1. fund the Normal Cost (cost associated with new services received) each year and
2. amortize the total unfunded actuarial liabilities (or funding excess) attributed to past services over a maximum of thirty years.

The ARC is used for accrual accounting purposes, not for funding purposes. It is a basis for the allocation of the employer's projected cost of providing Other Post Employment Benefits (OPEB) over periods that approximate the periods in which the employer receives services from the covered employees. Accordingly, the ARC is used as the foundation on which the measurement of the employer's Annual OPEB Cost is based.

Annual OPEB Cost is equal to the ARC with two required adjustments that, together, are designed to keep accounting and actuarial valuations in sync going forward when an employer has contributed less or more than the ARC in past years. For an employer with no Net OPEB Obligation, the Annual OPEB Cost is equal to the ARC.

Net OPEB Obligation (or asset) is a liability (or asset) recognized in an employer's government-wide statement of net assets, and in the financial statements of proprietary or fiduciary funds, that is essentially the cumulative difference between the Annual OPEB Cost determined in accordance with the requirements of Statement 45 and the amounts actually contributed in relation to the ARC.

Entry Age Actuarial Cost Method is the method used to determine required contributions under

SECTION 1 – Introduction

the Plan. The use of this method involves the systematic funding of the Normal Cost (described above) and the Unfunded Accrued (Past Service) Liability.

SECTION 2 – Notes to the Financial Statements

SECTION 2 - NOTES TO THE FINANCIAL STATEMENTS

This actuarial valuation involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to constant revision as actual experience is compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Calculations are based upon the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of sharing of costs between the employer and plan members to that point. Calculations reflect a long-term prospective, so methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

SECTION 2 – Notes to the Financial Statements

For the Actuarial Valuation, the Entry Age Normal (Level % of Pay) actuarial cost method was used. Select Actuarial Assumptions are listed in the table below:

Valuation Interest Rate	4.00% per year compounded annually, net of investment related expenses
Health Care Inflation	
Pre-Medicare	8.75% in fiscal 2017, trending to 5.5% in fiscal 2027, and an ultimate trend rate of 4.00% in 2073.
Post-Medicare	8.75% in fiscal 2017, trending to 5.5% in fiscal 2027, and an ultimate trend rate of 4.00% in 2073.
Salary Increase Rate	4.00%
Payroll Growth Rate	4.00%
Amortization of UAAL	Level % of Payroll (Open Amortization over 30 Years)

Employee Contribution Information

Retirees participating in the group insurance plans offered by the City are required to contribute a portion of the active premiums. At April 30, 2016, the retiree's portion of coverage is \$160/month for family and \$79/month for single after a wellness incentive premium reduction of \$50/month. In future years, contributions are assumed to increase at the same rate as premiums.

Note that the projected employee contributions for the Dental benefits are assumed to cover the entire cost of the program.

SECTION 2 – Notes to the Financial Statements

SECTION 2 – NOTES TO FINANCIAL STATEMENTS

Valuation Date	4/30/2016
Applicable for Fiscal Year Ending	<u>4/30/2017</u>
Annual Required Contribution	\$ 175,380
Interest on Net OPEB Obligation	30
Adjustment to Annual Required Contribution	<u>(26)</u>
Annual OPEB Cost/(Expense)	\$ 175,384
Estimated Net Contributions Made	<u>(263,659)</u>
Anticipated Increase/(Decrease) in Net OPEB Obligation	\$ (88,275)
Net OPEB Obligation - Beginning of Year	756
Adjustment to NOO - Beginning of Year	<u>0</u>
Final Net OPEB Obligation - End of Year	\$ (87,519)
Funded Status as of Valuation Date:	<u>4/30/2016</u>
Actuarial Accrued Liability (AAL)	\$ 3,096,284
Actuarial Value of Assets (AVA)	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$ 3,096,284
Funded Ratio	0.0%
Covered Payroll	\$ 4,523,121
Ratio of UAAL to Covered Payroll	71.2%

SECTION 2 – Notes to the Financial Statements

Three Year Trend Information

Year Ending	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
4/30/2017	\$175,384	150.3%	(\$87,519)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
4/30/2016	\$0	\$3,096,284	\$3,096,284	0.00%	\$4,523,121	68.5%
4/30/2015	N/A	N/A	N/A	N/A	N/A	N/A
4/30/2014	N/A	N/A	N/A	N/A	N/A	N/A
4/30/2013	\$0	\$3,210,847	\$3,210,847	0.00%	N/A	N/A

SECTION 3 – Development of Annual OPEB Expense

SECTION 3 - DEVELOPMENT OF ANNUAL OPEB EXPENSE

Valuation Date	4/30/2016
Applicable for Fiscal Year Ending	<u>4/30/2017</u>
<i>Unfunded Actuarial Accrued Liability at Beginning of Fiscal Year</i>	
Actuarial Accrued Liability	\$ 3,096,284
Actuarial Value of Assets	<u>0</u>
Unfunded Actuarial Accrued Liability	\$ 3,096,284
<i>Amortization Amount at Beginning of Fiscal Year</i>	
Amortization Period	30
Amortization Method	Open
Discount Rate	4.00%
Payroll Growth Rate	4.00%
Total Amortization Amount	\$ 103,208
<i>Development of Annual Required Contribution (ARC)</i>	
Normal Cost at Beginning of Fiscal Year	\$ 65,475
Interest on Normal Cost	<u>2,569</u>
Normal Cost Component	\$ 68,044
Amortization Amount at Beginning of Fiscal Year	\$ 103,208
Amortization Interest	<u>4,128</u>
Amortization Component	\$ 107,336
Annual Required Contribution	\$ 175,380
As of Percent of Covered Payroll	3.9%
<i>Development of Annual OPEB Cost</i>	
Annual Required Contribution	\$ 175,380
Net OPEB Obligation, Beginning of Year	\$ 756
Discount Rate	4.00%
Interest on Net OPEB Obligation	\$ 30
Adjustment to Annual Required Contribution	\$ (26)
Annual OPEB Cost	\$ 175,384

SECTION 4 – Per Capita Claims Costs and Contribution Amounts

SECTION 4 - PER CAPITA CLAIMS COSTS AND CONTRIBUTION AMOUNTS

2016 Per Capita Annual Benefit Costs Per Participant

Program	Pre 65 Cost	Post 65 Cost
Medical Insurance	\$13,986	\$5,138
Dental Insurance	\$408	\$408

2016 Annual Premium Amounts Per Participant

Program	Employee Contribution
Medical Insurance	\$9,308
Dental Insurance	\$408

SECTION 5 – Member Statistics

SECTION 5 - MEMBER STATISTICS

	<u>4/30/2016</u>
Number of Active Participants	62
Average Current Age	41.3
Average Age at Employment	32.8
Average Past Service	8.5
Average Salary	\$59,089
Number of Retirees (with Medical Coverage)	
Pre-Medicare	13
Post-Medicare	<u>0</u>
Total	13
Average Current Age of Retirees	60.5
Number of Covered Spouses (Including Beneficiaries of Deceased Retirees)	
Pre-Medicare	10
Post-Medicare	<u>0</u>
Total	10
Average Current Age of Spouses	57.5

SECTION 5 – Member Statistics

AGE AND SERVICE DISTRIBUTION

AGE	TOTAL PAST SERVICE										Total
	0	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	
20 - 24	0	1	0	0	0	0	0	0	0	0	1
25 - 29	2	5	2	0	0	0	0	0	0	0	9
30 - 34	3	5	5	2	0	0	0	0	0	0	15
35 - 39	0	0	5	0	1	0	0	0	0	0	6
40 - 44	1	3	2	0	0	0	0	0	0	0	6
45 - 49	0	1	2	3	3	1	0	0	0	0	10
50 - 54	1	1	0	0	3	0	0	0	0	0	5
55 - 59	0	2	0	0	2	3	1	0	0	0	8
60 - 64	0	0	0	0	1	0	0	0	0	0	1
65+	0	0	0	1	0	0	0	0	0	0	1
Total	7	18	16	6	10	4	1	0	0	0	62

SECTION 6 - Actuarial Assumptions and Funding Methods

SECTION 6 - ACTUARIAL ASSUMPTIONS AND FUNDING METHODS

Actuarial Assumptions

<u>Valuation/Measurement Date</u>	April 30, 2016										
<u>Fiscal Year End</u>	April 30, 2017										
<u>Actuarial Value of Assets</u>	Market Value										
<u>Mortality Rate</u>	RP-2000 Combined Healthy Mortality Table with no projection										
<u>Interest Rate</u>	4.00% per year compounded annually, net of investment related expenses										
<u>Retirement Rate</u>	100% at age 54 for Police Employees 100% at age 60 for IMRF Employees										
<u>Termination Rates</u>	Selected rates for various ages listed below: <table><thead><tr><th><u>Age</u></th><th><u>% Remaining Employed Until Assumed Retirement Age:</u></th></tr></thead><tbody><tr><td>20</td><td>29.60%</td></tr><tr><td>30</td><td>59.30%</td></tr><tr><td>40</td><td>84.10%</td></tr><tr><td>50</td><td>100.00%</td></tr></tbody></table>	<u>Age</u>	<u>% Remaining Employed Until Assumed Retirement Age:</u>	20	29.60%	30	59.30%	40	84.10%	50	100.00%
<u>Age</u>	<u>% Remaining Employed Until Assumed Retirement Age:</u>										
20	29.60%										
30	59.30%										
40	84.10%										
50	100.00%										
<u>Participation Rate</u>	100% of active employees eligible for explicit benefits are assumed to maintain benefit coverage after retirement 20% of active employees ineligible for explicit benefits are assumed to maintain benefit coverage after retirement										
<u>Spousal Coverage</u>	50% of active employees who have elected benefit coverage are assumed to cover their spouse										
<u>Administrative Expenses</u>	\$2,500										

SECTION 7 – Summary of Plan Provisions

SECTION 7 - SUMMARY OF PLAN PROVISIONS

<u>Credited Service</u>	Total completed years of employment with the City
<u>Eligibility for Insurance Coverage</u>	Retirees need to be at least 55 years old, have combined age and years of service of at least 80, and have been hired by the City before August 1, 1998 to receive health subsidy from the City. Otherwise, must meet retirement eligibility under one of the pension plans.
<u>Health Contributions</u>	
Employees	Retirees who meet special eligibility provisions above: \$160/month for family coverage, and \$79/month for single coverage with wellness reduction. Additional \$50/month without wellness reduction. Otherwise, 100% of active premium.
City	Remaining amount necessary for payment of claims