

**City of Dearborn
Post Employment Health Care Fund
Proposed FY2014, 2015 and 2016 Budget**

This fund accounts for amounts reserved to pay current and future post-employment health insurance expenses

General Comments

- Statements 43 and 45 for Post Employment Health Care. This study is required every two years. The required **average** contribution rate is 54.77% of payroll, assuming full funding and an earnings rate of 7.25%. This rate has doubled from 27.08% in the previous actuary study prepared two years ago. The increase is primarily due to the fund being closed to new hires. This change brought about new actuarial assumptions that greatly increased the unfunded liability of the fund. The total Actuarial Required Contribution (ARC) for the plan for Fiscal 2014 \$18.1 million. This compares to \$13.5 million in 2013. The budget has been prepared to fund \$12.0 million of the contribution for 2014, 15 and 16. This is the pay-as-you-go amount for 2014. Enterprise Funds are still contributing at the full contribution rate of 54.77%
- The City has developed a funding method that assigns a percentage of payroll for active employees' normal costs and unfunded liabilities. For retirees, the costs of unfunded liabilities are allocated to departments/divisions based on the staffing history for each division. This amount has been adjusted down to match the pay-as-you-go amount for 2014.

Revenue

- Contributions are computed to decrease over \$(-1.5 million) from the Fiscal 2013 amended budget. Strong investment earnings are expected, and we have projected \$1.9 million in gains for 2013, but final change in the value of the portfolio is unknown at this time. The value of the portfolio could change up or down depending on the market for the rest of the fiscal year.
- Contributions for years 2014 through 2016 are budgeted at to be essentially pay-as-you-go. This amount is just under \$12 million for 2014. Contributions have been maintained at this level for 2015 and 2016, despite projected increases in costs. Interest and dividend earnings will help offset the increase in costs.

Expenditures

- 2013 expenditures for health care are projected to be 4.6% lower than the budget. This appears to be due to lower expenses from self-insured Blue Cross / Blue Shield.
- Increases for retiree health care are budgeted at 1 to 9.2% percent in 2014, 6 to 10 percent for 2015, and 6 to 10 percent for 2016. Expenses are projected to be substantially less than revenue in 2014. This trend will continue at a declining pace in 2015 and 2016.
- Blue Cross / Blue Shield expenses in the fund were reduced by 15% for 2014. This is because the rates provided by the carrier (the "Illustrative Rates") are higher than the actual costs being charged by the provider. The 15% reduction cut the assessment for Blue Cross / Blue Shield by about \$1 million.