

CITY OF DEARBORN RETIREE HEALTH CARE PLAN
HEALTH CARE PREMIUM COVERAGES DURING RETIREMENT
JUNE 30, 2012 ACTUARIAL VALUATION REPORT

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March 15, 2013

Mr. James J. O'Connor
Finance Director
City of Dearborn Retirement Systems
4500 Maple, City Hall
Dearborn, Michigan 48126

Dear Jim:

Submitted in this report are the results of an Actuarial Valuation of the assets and liabilities associated with the employer financed retiree health benefits provided by the City of Dearborn. The date of the valuation was June 30, 2012 effective for the fiscal years July 1, 2013 to June 30, 2014 and July 1, 2014 to June 30, 2015.

This report was prepared at the request of the City of Dearborn and is intended for use by the City of Dearborn and those designated or approved by the City. This report may be provided to parties other than the City of Dearborn only in its entirety and only with the permission of the City.

The actuarial calculations were prepared for purposes of complying with the requirements of Statement No. 45 of the Governmental Accounting Standards Board (GASB). In addition, we have included information which may be helpful if there is a trust requiring a GASB Statement No. 43 disclosure. The calculations reported herein have been made on a basis consistent with our understanding of these accounting standards. This report should not be relied on for any other purpose. Determinations of the liability associated with the benefits described in this report for purposes other than satisfying the City of Dearborn's financial reporting requirements may be significantly different than the values shown in this report.

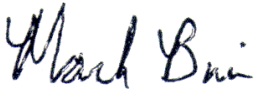
Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

The valuation was based upon information furnished by the City of Dearborn, concerning retiree health benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal and year-to-year consistency with the last valuation, but did not otherwise audit the data. We are not responsible for the accuracy or completeness of the information provided by the City of Dearborn.

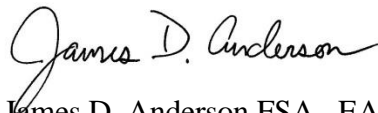
Mr. James O'Connor
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To the best of our knowledge the information contained in this report is accurate and fairly presents the actuarial position of the City of Dearborn as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. The undersigned are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. The signing actuaries are independent of the plan sponsor.

Respectfully submitted,



Mark Buis, FSA, EA, MAAA



James D. Anderson FSA, EA, MAAA

MB/JDA:sc

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Annual Required Contribution and OPEB Cost

This report presents the Annual Required Contribution (ARC), one component of the annual Other Postemployment Benefits (OPEB) cost required to be recognized by the plan sponsor for purposes of complying with the accounting requirements of the Governmental Accounting Standards Board (GASB) Statement No. 45. In addition, the plan may need to comply with GASB Statement No. 43. Please consult with legal counsel and your auditors to determine whether you have a plan for GASB Statement No. 43 purposes.

We have calculated the Annual Required Contribution (ARC) for the fiscal years beginning July 1, 2013 and July 1, 2014. Below is a summary of the results. In the first year GASB Statement No. 45 is adopted, the annual OPEB cost is equal to the ARC. In subsequent years, if there is a net OPEB obligation (NOO, see below), the annual OPEB cost is equal to the ARC for the fiscal year plus one year's interest on the net OPEB Obligation plus an adjustment to the ARC. Actual claims paid on behalf of retirees may be treated as employer contributions in relation to the ARC and act to reduce the NOO. The ARCs and estimated retiree claims shown below include an adjustment for any implicit rate subsidy present in your pre-65 rates.

<u>Annual Required Contribution</u>	<u>ARC</u>	<u>Estimated Claims Paid for Retirees</u>
Fiscal Year Beginning 2013	\$ 18,104,965	\$ 13,508,306
Fiscal Year Beginning 2014	18,086,165	14,343,576

For additional details please see the Section titled "Valuation Results."

EXECUTIVE SUMMARY

Additional OPEB Reporting Requirements – Net OPEB Obligation

In addition to the annual cost described on the previous page, employers will have to disclose a Net OPEB Obligation (or asset). The NOO is the cumulative difference between annual OPEB cost and annual employer contributions in relation to the ARC accumulated from the implementation of Statement No. 45. The NOO is zero as of the beginning of the fiscal year that Statement No. 45 is implemented, unless the employer chooses to recognize a beginning balance. The requirements for determining the employer’s contributions in relation to the ARC are described in paragraph 13 g. of Statement No. 45. Additional information required to be disclosed in the employer’s financial statements is detailed in paragraphs 24 through 27 of Statement No. 45.

Liabilities and Assets

1. Present Value of Future Benefit Payments	\$254,354,289
2. Actuarial Accrued Liability	223,352,088
3. Plan Assets	41,504,859
4. Unfunded Actuarial Accrued Liability (3) – (2)	181,847,229
5. Funded Ratio (3)/(2)	18.6%

The Present Value of Future Benefit Payments (PVFB) is the present value of all benefits projected to be paid from the plan for past and future service. The Actuarial Accrued Liability is the portion of the PVFB allocated to past service by the Plan’s funding method (see the Section titled “Actuarial Cost Method and Actuarial Assumptions”).

SECTION A
VALUATION RESULTS

CITY OF DEARBORN
DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTIONS

Contributions for	Development of the Annual Required Contribution		
<u>Fiscal Year Beginning 2013</u>	<u>General</u>	<u>Police & Fire</u>	<u>Total</u>
Employer Normal Cost	\$1,639,865	\$1,710,060	\$ 3,349,925
Amortization of Unfunded Actuarial Accrued Liability	<u>7,216,716</u>	<u>7,538,324</u>	<u>14,755,040</u>
Annual Required Contribution (ARC)	\$8,856,581	\$9,248,384	\$18,104,965
<u>Fiscal Year Beginning 2014</u>			
Annual Required Contribution (ARC)	\$8,712,592	\$9,373,573	\$18,086,165

The ARC shown in this report has been calculated to increase at the same rate as the projected increase in active member payroll (3.75% per year) for the fire group and remain constant for the general and police groups. The unfunded actuarial accrued liabilities were amortized as a level percent of payroll over a period of 24 years for the fire group and a level dollar amount over a period of 24 years for the general and police groups. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with the GASB requirements. We assumed the City will make contributions which are approximately equal to the full ARC.

CITY OF DEARBORN
DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
AS OF JUNE 30, 2012

	<u>General</u>	<u>Police & Fire</u>	<u>Total</u>
A. Present Value of Future Benefits			
i) Retirees and Beneficiaries	\$ 74,179,422	\$ 90,837,921	\$165,017,343
ii) Vested Terminated Members	1,385,120	18,855	1,403,975
iii) Active Members	<u>41,137,297</u>	<u>46,795,674</u>	<u>87,932,971</u>
Total Present Value of Future Benefits	\$116,701,839	\$137,652,450	\$254,354,289
B. Present Value of Future Normal Costs	10,421,889	20,580,312	31,002,201
C. Actuarial Accrued Liability (A.-B.)	106,279,950	117,072,138	223,352,088
D. Actuarial Value of Assets	22,392,788	19,112,071	41,504,859
E. Unfunded Actuarial Accrued Liability (C.-D.)	\$83,887,162	\$97,960,067	\$181,847,229
F. Funded Ratio (D./C.)	21.1%	16.3%	18.6%

The Unfunded Actuarial Accrued Liability (UAAL) is not booked as an expense all in one year and does not appear in the Employer's Statement of Net Assets. Nevertheless, it is reported in the Notes to the Financial Statements and in the Required Supplementary Information. These are information sections within the employer's financial statements.

Assets have been allocated to each of the groups (General, Police, Fire) based on the active accrued liability on the valuation date.

COMMENTS

COMMENT A: One of the key assumptions used in any valuation of the cost of postemployment benefits is the rate of return on Plan assets. Higher assumed investment returns will result in a lower ARC. Lower expected returns will tend to increase the computed ARC. Based on information from the plan sponsor we have calculated the liability and the resulting ARC using an assumed long term rate of investment return of 7.25%. If the City chooses to pre-fund with contributions less than the ARC (or not pre-fund at all), GASB requires the use of a lower rate of return on assets. Use of such an interest rate would considerably increase the ARC and the net OPEB obligation that is disclosed on the employers' financial statement.

COMMENT B: As discussed in Comment A, the ARC shown in this report has been calculated assuming that approximately the full ARC will be contributed each year. If an amount materially less than the full ARC is contributed, different assumptions would have to be used that would produce a higher ARC. Shown below are results under 2 scenarios: 1) The City pays benefits on a pay-as-you-go basis and, therefore, must calculate liabilities using a lower interest rate, and 2) The City contributes the full ARC each year and proceeds using a valuation rate of 7.25%. If the City's policy is to contribute an amount less than the full ARC but more than a pay-as-you-go basis, GASB would allow an intermediate rate generating intermediate results.

Funding Policy	Pay-as-You-Go	Full ARC
Assumed Rate of Return	4.00%	7.25%
General		
ARC (\$)	\$ 11,868,064	\$ 8,856,581
Police & Fire		
ARC (\$)	\$ 12,960,779	\$ 9,248,384
Total		
ARC (\$)	\$ 24,828,843	\$ 18,104,965

COMMENTS (CONTINUED)

COMMENT C: The ARC shown in this year's report is higher than what was expected based on the previous (2010) valuation report. This is primarily because the General and Police groups are financed using a level dollar amortization because most of the employee groups are closed to new hires. The trend was re-set to 9% initially to be consistent with plans of similar size in the area. This increase was slightly offset by better than expected medical claim experience.

COMMENT D: Based on the number of Plan members as of this valuation, the Plan Sponsor is required by GASB to perform actuarial valuations at least biennially unless there are significant changes in the OPEB.

COMMENT E: Retired former employees who are receiving medical coverage elsewhere are eligible for an annual health insurance allowance of \$1,250 - \$2,500 from the Retiree Health Care Plan. The liability associated with this allowance has not been included in this report.

COMMENT F: The provisions of the Patient Protection and Affordable Care Act (PPACA) have been incorporated to the extent they are reflected in the premium rates. We have not adjusted for future potential excise tax liability for 'Cadillac Plans' due to begin in 2018. Based on the City's current premiums projected using valuation trend rates, we estimate the liability may increase Plan costs by 1% - 3%. It is likely an estimate of the future excise tax liability will be included in the 2014 valuation of the Plan. Other provisions of PPACA will be reflected as they become effective.

COMMENT G: The implicit rate subsidy has been included in this valuation, please see the section titled "Retiree Premium Rate Development" for more details. The implicit rate subsidy resulted in an increase of approximately 7% in total pay as you go premiums.

COMMENTS (CONCLUDED)

COMMENT H: GASB Statement No. 45 stipulates that Plan Assets must be placed in a trust or equivalent arrangement that meets the following criteria:

- Employer contributions to the Plan are irrevocable
- Assets are dedicated to providing benefits to retirants and their beneficiaries
- Assets are legally protected from creditors

Our calculations assume these criteria have been met.

COMMENT I: The Actuarial Standards of Practice with regard to the mortality assumption has recently been revised. ASOP No. 35 Disclosure 4.1.1 now states *“The disclosure of the mortality assumption should contain sufficient detail to permit another qualified actuary to understand the provision made for future mortality improvement. If the actuary assumes zero mortality improvement after the measurement date, the actuary should state that no provision was made for future mortality improvement.”*

The membership size in this group is not sufficiently large to determine if there is a margin for mortality improvements. However, based upon our experience with a broad cross section of public sector plans similar in nature to this plan, it is our opinion that there is no provision for future mortality improvement in the current mortality assumption. We recommend that the mortality assumption be updated for the June 30, 2014 valuation.

SECTION B

RETIREE PREMIUM RATE DEVELOPMENT

RETIREE PREMIUM RATE DEVELOPMENT

The City offers benefits on a fully-insured basis and on a self-insured basis. The fully-insured and self-insured rates are developed separately and then blended together at the end to create a single set of rates for use in the valuation.

Initial self-inured premium rates were developed separately for each class (Medicare (post-65) and Non-Medicare (pre-65) retirees). The rates were calculated by using paid claims and exposure data incurred during the period of July 2009 to June 2012 and paid prior to June 2012 adjusted for catastrophic claims, plus the load for administration, network access fee, and stop loss premiums. The Medical data was analyzed for the pre-65 and post-65 participants separately since Medicare is available for the post-65 participants and has a significant impact on the claim experience. We estimated the split between Medicare and Non-Medicare claims since they were not provided separately. Furthermore, since the prescription drug claims and the medical claims exhibit different trends and claim payment patterns, we analyzed these claims separately as well.

Initial fully-insured premium rates were developed for the two classes of retirees (pre-65 and post-65). The fully-insured rates provided by the City were utilized to determine the appropriate premium rates. The pre-65 fully-insured premiums are blended rates based on the combined experience of active and pre-65 retired members; therefore, there is an implicit employer subsidy for the non-Medicare eligible retirees since the average costs of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees. The true per capita cost for the pre-65 retirees is developed by adjusting the demographic differences between the active employees and retirees to reflect this implicit rate subsidy for the retirees. For the post-65 retirees, the fully-insured premium rate is used as the basis of the initial per capita cost without adjustments since the rate reflects the demographics of the post-65 retiree group. All Medicare retirees in BCBS plans are enrolled in the Medicare Advantage for medical coverage. For their Rx coverage, they get the prescription drug benefit that corresponds to their BCBS suffix.

In a Medicare Advantage program, the liability is based on the difference between the present value of future claims minus the present value of future reimbursements from CMS. Each of these items will experience future growth under arguably differing forces. Recently announced changes to the Medicare Advantage program will most likely result in decreases in the reimbursements from CMS, at least over

RETIREE PREMIUM RATE DEVELOPMENT

the short term. In 2014, we expect medical costs to increase by approximately 9% per member next year, however, we expect CMS reimbursements to decrease by about 8% per member. This, in turn, will cause the net employer cost to trend upward at a rate above usual market trends for healthcare costs. When the plan is insured, this effect is buried in the rates being charged by the insurer. To account for this expectation, we have adjusted the Medicare rates up by a factor of 37.0% to account for the expected CMS reimbursement decreases. This adjustment will likely be reduced or eliminated at the time of the next valuation.

For the current active employees, different benefits are available upon retirement since some plans are closed to future retirees. We have developed separate premium rates for future retirees in order to reflect the benefit differences.

Age graded and sex distinct premiums are utilized by this valuation. The premiums developed by the preceding process are appropriate for the unique age and sex distribution currently existing. Over the future years covered by this valuation, the age and sex distribution will most likely change. Therefore, our process “distributes” the average premium over all age/sex combinations and assigns a unique premium for each combination. The age/sex specific premiums more accurately reflect the health care utilization and cost at that age.

RETIREE PREMIUM RATE DEVELOPMENT

The combined monthly one-person medical, and drug premiums at select ages are shown below:

For Those Not Eligible for Medicare (Pre-65)				
Age	Future Retirees		Current Retirees	
	Male	Female	Male	Female
40	\$ 351.60	\$ 550.86	\$ 385.17	\$ 603.46
50	646.30	732.29	708.00	802.21
60	1,061.18	1,020.03	1,162.50	1,117.42
64	1,235.17	1,144.88	1,353.10	1,254.19

For Those Eligible for Medicare (Post-65)				
Age	Future Retirees		Current Retirees	
	Male	Female	Male	Female
65	\$ 453.62	\$ 417.72	\$ 530.59	\$ 488.60
75	580.89	515.53	679.45	603.00
85	647.74	568.68	757.65	665.17

The undersigned is a Member of the American Academy of Actuaries (MAAA) and meets the Qualification Standards of the American Academy of Actuaries to certify the per capita retiree health care rates shown above.



 John Mallows, FSA, MAAA

SECTION C
SUMMARY OF BENEFITS

CITY OF DEARBORN PUBLIC RETIREE HEALTH CARE PLAN

SUMMARY OF BENEFITS AS OF JUNE 30, 2012

PLAN PARTICIPANTS

Employees of the City of Dearborn are eligible to receive retiree health care benefits.

Except:

- E & A:** employees hired on or after July 1, 2012.
- Communication Supervisors:** hired on or after September 7, 2010.
- Court:** employees hired on or after January 1, 2002.
- STP:** employees hired on or after October 11, 2010.
- Dispatch:** employees hired on or after September 7, 2010.
- MWD:** employees hired on or after September 27, 2010.
- POAD:** employees hired on or after June 20, 2012.
- Teamsters:** employees hired on or after November 15, 2010.

NORMAL RETIREMENT BENEFITS

Normal retirement eligibility conditions for retiree health care benefits are as follows:

Health Care Benefit Eligibility Conditions

Police & Fire 25 years of service or 10 years of service and 55 years old. New Hires: Police effective April 2009 and Fire effective May 2009 are eligible at 25 years of service and 50 years old.

General employees 25 years of service and 55 years old or 10 years of service and 60 years old.

Dispatchers 25 years of service and 50 years old or 10 years of service and 60 years old.

Health Care Benefit Provided by Plan

Member: City pays 100% of the premium with varying prescription drug co-pays.

Spouse & Dependents: City pays 100% of premium as long as the spouse continues to receive a pension and dependents are eligible.

EARLY RETIREMENT BENEFITS

Members and eligible dependents retiring under early retirement conditions are eligible for retiree health care as and if/when negotiated.

CITY OF DEARBORN PUBLIC RETIREE HEALTH CARE PLAN

SUMMARY OF BENEFITS AS OF JUNE 30, 2012

DEFERRED RETIREMENT BENEFITS

Deferred retirement eligibility conditions for retiree health care benefits are as follows:

Health Care Benefit Eligibility Conditions

Police & Fire: benefit commences when member would have been eligible for normal retirement until Jan. 1, 1999 for non-supervisory police and July 1, 1998 for Sergeants & Lieutenants and Fire. Thereafter no health care for deferred retirees.

General employees: Benefit commences when deferred retiree with 25 or more years of service attains age 55 or 50 years old for dispatchers. 25 or more years of service required to obtain deferred retiree health care.

Health Care Benefit Provided by Plan

Member: City pays 100% of the premium with varying prescription drug co-pays.

Spouse & Dependents: City pays 100% of premium as long as the spouse continues to receive a pension and dependents are eligible.

DUTY AND NON-DUTY DEATH-IN-SERVICE RETIREMENT BENEFITS

Duty Death retirement eligibility conditions for retiree health care benefits are as follows:

Health Care Benefit Eligibility Conditions

Benefit commences immediately.

Health Care Benefit Provided by Plan

Spouse & Dependents: City pays 100% of premium as long as the spouse continues to receive a pension and dependents are eligible.

DUTY DISABILITY RETIREMENT BENEFITS

Duty Disability retirement eligibility conditions for retiree health care benefits are as follows:

Health Care Benefit Eligibility Conditions

Benefit commences immediately.

Health Care Benefit Provided by Plan

Member: City pays 100% of premium with varying prescription drug co-pays.

Spouse & Dependents: City pays 100% of premium as long as the spouse continues to receive a pension and dependents are eligible.

CITY OF DEARBORN PUBLIC RETIREE HEALTH CARE PLAN

SUMMARY OF BENEFITS AS OF JUNE 30, 2012

NON-DUTY DISABILITY RETIREMENT BENEFITS

Non-Duty Disability retirement eligibility conditions for retiree health care benefits are as follows:

Health Care Benefit Eligibility Conditions

Fire: any age with 25 years of service.

Non-Supervisory Police: Effective July 1, 2009, non-duty disability retirees, spouse and eligible dependents will have the premium paid in accordance with the schedule below:

Lieutenants and Sergeants: Effective July 1, 2005, non-duty disability retirees, spouse and eligible dependents will have the premium paid in accordance with the following schedule:

<u>Years of Service Completed</u>	<u>Percent Paid by City</u>
0 through 9 years	0%
10 through 14 years	40%
15 through 19 years	60%
20 through 24 years	80%
25 years and over	100%

General employees: 25 years of service and 55 years old or 10 years of service and 60 years old. Benefit commences when member would have been eligible for normal retirement.

Dispatchers: 25 years of service and 50 years old. Benefit commences when member would have been eligible for normal retirement.

Health Care Benefit Provided by Plan

Member: City pays 100% of the premium with varying prescription drug co-pays.

Spouse & Dependents: City pays 100% of the premium as long as the spouse continues to receive a pension and dependents are eligible.

BENEFITS FOR SPOUSES OF RETIRED EMPLOYEES

Spouses of retired employees are eligible to receive retiree health care benefits. Coverage continues to surviving spouses of deceased retirees. All eligible spouses must be spouse at time of retirement.

NON-MEDICARE AND MEDICARE-ELIGIBLE PROVISIONS

Retirees are required to enroll in Medicare once eligible. Retiree pays Medicare premiums and will be enrolled in one of the two Medicare Advantage plans.

**CITY OF DEARBORN PUBLIC RETIREE HEALTH CARE PLAN
SUMMARY OF BENEFITS AS OF JUNE 30, 2012**

VISION COVERAGE

Health Care Benefit Eligibility Conditions

Members who retire are not eligible for vision coverage.

DENTAL COVERAGE

Health Care Benefit Eligibility Conditions

Members & dependents may receive dental benefits.

Health Care Benefit Provided by Plan

Member: must pay 100% of premium.

Spouse & Dependents: must pay 100% of premium.

LIFE INSURANCE COVERAGE

Retiree voluntarily elects and pays a monthly fee for \$2,500 of life insurance coverage.

RETIREE OPT-OUT

Retirees who decide to opt-out of the health care plan will be eligible to receive \$1,250 (single employee), \$2,000 (2 person) or \$2,500 (family) in any year they receive coverage from another source up until age 65 for Lieutenants & Sergeants and age 66 for all other retirees.

This is a brief summary of the City of Dearborn Other Postemployment Benefits provisions. In the event that any description contained herein differs from the actual eligibility or benefit, the appropriate employee contract or governing document will prevail.

SECTION D

SUMMARY OF PARTICIPANT DATA

CITY OF DEARBORN
MEMBERS INCLUDED IN JUNE 30, 2012 VALUATION

ACTIVE

Active Members	Number	Average Attained Ages
General	325	49.8 years
Police & Fire	287	37.8 years
Total	612	

TERMINATED VESTED

Terminated Vested	Number
General	8
Police & Fire	1
Total	9

RETIRES & BENEFICIARIES

Retired Members	Number	Average Age at Retirement
General	488	74.4 years
Police & Fire	365	66.6 years
Total*	853	

**Excludes 179 participants that have opted out of post-retirement health coverage or who are eligible for pension benefits but not health benefits, also excludes 155 beneficiaries reported to GRS as a separate single health contract, instead a two person health contract was valued.*

SECTION E

GASB ACCOUNTING SCHEDULE

**GASB STATEMENT NO. 43 AND NO. 45
REQUIRED SUPPLEMENTARY INFORMATION**

Valuation Date	June 30, 2012
Actuarial Cost Method	Individual Entry Age
Amortization Method General and Police Fire	Level Percent Closed Level Dollar Closed
Remaining Amortization Periods	24 Years
Asset Valuation Method	Market
Actuarial Assumptions:	
Investment Rate of Return	7.25%
Projected Salary Increases	3.75% - 7.8%
Healthcare Cost Trend Rate	9% Initial 3.75% Ultimate

SECTION F

ACTUARIAL COST METHOD AND ACTUARIAL ASSUMPTIONS

**ACTUARIAL METHODS FOR
CITY OF DEARBORN
AS OF JUNE 30, 2012**

Actuarial Cost Method. Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an **Individual Entry-Age Actuarial Cost Method** having the following characteristics:

- (i) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement;
- (ii) each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Actuarial gains (losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

Financing of Unfunded Actuarial Accrued Liabilities. Unfunded actuarial accrued liabilities (UAAL) (full funding credit if assets exceed liabilities) were amortized as a level percent of payroll if the divisions are open to new hires and as a level dollar if the divisions are closed to new hires. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date and projected to the beginning of the fiscal year at the assumed rate of investment return.

Actuarial Value Assets. The Actuarial Value of Assets is set equal to the reported market value of assets and split between general, police and fire groups using active accrued liability as of the valuation date.

**ACTUARIAL METHODS FOR
CITY OF DEARBORN
AS OF JUNE 30, 2012**

The following amortization factors were used in developing the Annual Required Contribution for the fiscal years shown:

7.25% Interest	Fiscal Year Beginning July 01,	
	2013	2014
General and Police (Level Dollar)	11.6240	11.4309
Fire (Level Percent of Pay)	16.2476	15.7973

ACTUARIAL ASSUMPTIONS FOR CITY OF DEARBORN AS OF JUNE 30, 2012

The rate of investment return was 7.25% a year, compounded annually net after administrative expenses.

The assumed real return is the rate of return in excess of price inflation. Considering other assumptions used in the valuation, the 7.25% nominal rate translates to a net real return of 3.5% a year.

The rates of salary increase used for individual members are in accordance with the following table.

This assumption is used to project a member's current salary to the salaries upon which benefits will be based.

Sample Ages	Base Economic	Merit and Seniority					TOTAL				
		General Operative	General Non-Operative	Fire	Police	MERS Pol/Fire	General Operative	General Non-Operative	Fire	Police	MERS Pol/Fire
20	3.75 %	4.16 %	4.80 %	3.50 %	3.50 %	8.40 %	7.91 %	8.55 %	7.25 %	7.25 %	12.15 %
25	3.75	2.88	3.30	3.50	3.50	5.33	6.63	7.05	7.25	7.25	9.08
30	3.75	1.98	1.60	2.90	2.60	3.26	5.73	5.35	6.65	6.35	7.01
35	3.75	1.52	1.20	2.20	1.10	2.05	5.27	4.95	5.95	4.85	5.80
40	3.75	1.10	0.90	1.70	0.50	1.30	4.85	4.65	5.45	4.25	5.05
45	3.75	0.66	0.80	1.20	0.50	0.81	4.41	4.55	4.95	4.25	4.56
50	3.75	0.32	0.60	0.70	0.50	0.52	4.07	4.35	4.45	4.25	4.27
55	3.75	0.14	0.50	0.50	0.50	0.30	3.89	4.25	4.25	4.25	4.05
60	3.75	0.00	0.40	0.50	0.50	0.00	3.75	4.15	4.25	4.25	3.75
Ref:		92	131	223	224	214					

The payroll growth rate for financing Unfunded Actuarial Accrued Liabilities was assumed to be 3.75% per year.

**ACTUARIAL ASSUMPTIONS FOR
CITY OF DEARBORN AS OF JUNE 30, 2012**

General Group:

The mortality table was the 1994 Group Annuity Mortality Table.

Sample Attained	Single Life Retirement Values			
	Present Value of \$1 Monthly for Life		Future Life Expectancy (years)	
	Men	Women	Men	Women
45	\$151.14	\$156.35	35.38	39.68
50	144.28	151.03	30.69	34.89
55	135.55	143.96	26.15	30.17
60	124.83	134.87	21.83	25.59
65	112.49	124.03	17.84	21.28
70	99.13	111.62	14.29	17.30
75	84.57	96.94	11.12	13.60
80	69.37	80.88	8.37	10.31
Ref:	261 x 1.00	262 x 1.00		

This assumption is used to measure the probabilities of each benefit payment being made after retirement. For active members, the probabilities of dying before retirement were based upon 60% of the same mortality table as members dying after retirement and the probabilities of each benefit payment being made after retirement.

For disabled retirees, the regular mortality tables are set forward 10 years in ages to reflect impaired longevity.

**ACTUARIAL ASSUMPTIONS FOR
CITY OF DEARBORN AS OF JUNE 30, 2012**

MERS Police and Fire Defined Benefit Group:

The mortality table was the 1994 Group Annuity Mortality Table blended 50% male/50% female.

Sample Attained	Single Life Retirement Values			
	Present Value of \$1 Monthly for Life		Future Life Expectancy (years)	
	Men	Women	Men	Women
45	\$153.62	\$153.62	37.34	37.34
50	147.49	147.49	32.60	32.60
55	139.53	139.53	27.98	27.98
60	129.56	129.56	23.53	23.53
65	117.90	117.90	19.40	19.40
70	104.97	104.97	15.66	15.66
75	90.33	90.33	12.24	12.24
80	74.73	74.73	9.25	9.25
Ref:	261 x 1.00	262 x 1.00		

The same mortality tables are used for active members with 90% of active deaths assumed non-duty and 10% assumed duty related.

For disabled retirees, the regular mortality tables are set forward 10 years in ages to reflect impaired longevity.

**ACTUARIAL ASSUMPTIONS FOR
CITY OF DEARBORN AS OF JUNE 30, 2012**

Police & Fire:

The mortality table was the 1994 Group Annuity Mortality Table (multiplied by 110% for males).

Sample Attained Ages	Single Life Retirement Values			
	Present Value of \$1 Monthly for Life		Future Life Expectancy (years)	
	Men	Women	Men	Women
45	\$150.01	\$156.35	34.46	39.68
50	142.83	151.03	29.80	34.89
55	133.72	143.96	25.29	30.17
60	122.60	134.87	21.01	25.59
65	109.88	124.03	17.08	21.28
70	96.25	111.62	13.60	17.30
75	81.52	96.94	10.51	13.60
80	66.26	80.88	7.85	10.31
Ref:	261 x 1.10	262 x 1.00		

This assumption is used to measure the probabilities of each benefit payment being made after retirement. For active members, the probabilities of dying before retirement were based upon 70% of the same mortality table as members dying after retirement and the probabilities of each benefit payment being made after retirement.

For disabled retirees, the regular mortality tables are set forward 10 years in ages to reflect impaired longevity.

**ACTUARIAL ASSUMPTIONS FOR
CITY OF DEARBORN AS OF JUNE 30, 2012**

The rates of retirement used to measure the probability of eligible members retiring during the next year were as follows:

Attained Ages	Percent of Eligible Members Retiring Within Next Year					
	General Members		MERS	Operative	Police	Fire
	Males	Females	Pol/Fire	Members		
45-49					30%	10%
50			20%		25%	10%
51			20%		25%	10%
52			20%		15%	10%
53			20%		15%	10%
54			20%		15%	15%
55	40%	35%	20%	30%	30%	25%
56	25%	20%	20%	30%	25%	25%
57	25%	20%	21%	30%	25%	20%
58	25%	20%	21%	30%	25%	20%
59	25%	20%	21%	30%	25%	25%
60	35%	30%	21%	30%	30%	50%
61	25%	20%	22%	30%	30%	50%
62	30%	25%	22%	40%	30%	50%
63	30%	25%	22%	40%	30%	50%
64	30%	25%	23%	40%	30%	50%
65	60%	55%	25%	40%	100%	100%
66	30%	25%	25%	40%		
67	35%	30%	26%	40%		
68	45%	45%	28%	40%		
69	50%	45%	30%	40%		
70	100%	100%	100%	100%		
Ref	1027	1028	1876	1026	1025	1024

Effective 6/30/99, if a person has the maximum years of credited service for benefit purposes, the assumed probability of retirement is the greater of 25% or the rate in the retirement table. The probability of retirement for Police Dispatch members between the ages of 50 and 55 is 30%.

**ACTUARIAL ASSUMPTIONS FOR
CITY OF DEARBORN AS OF JUNE 30, 2012**

Rates of separation from active membership were as shown below (rates do not apply to members eligible to retire and do not include separation on account of death or disability). This assumption measures the probabilities of members remaining in employment.

Sample Ages	Years of Service	% of Active Members Separating within Next Year				
		General		Operative Members	Police	Fire
		Males	Females			
ALL	0	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
	1	0.0	0.0	0.0	0.0	0.0
	2	0.0	0.0	0.0	0.0	0.0
	3	0.0	0.0	0.0	0.0	0.0
	4	0.0	0.0	0.0	0.0	0.0
25	5 & over	10.0	10.0	4.0	1.35	0.88
30		8.8	8.8	4.0	1.17	0.73
35		6.8	6.8	4.0	0.69	0.38
40		4.5	4.8	3.4	0.27	0.15
45		2.6	3.4	2.4	0.15	0.13
50		1.4	2.4	1.4	0.15	0.13
55		0.7	1.4	0.7	0.15	0.13
60	0.2	0.0	0.5	0.15	0.13	

Sample Years of Service	% of Active Members Separating Within the Next Year
	MERS Police/Fire
0	20.00%
1	17.00
2	14.00
3	11.00
4	9.00
5	6.50
10	5.00
15	3.70
20	3.00
25	2.70
30	2.60
34 and over	2.40

**ACTUARIAL ASSUMPTIONS FOR
CITY OF DEARBORN AS OF JUNE 30, 2012**

Rates of disability among active members.

Sample Ages	% of Active Members Separating within Next Year				
	General		Operative Members		MERS Pol/Fire
	Males	Females	Males	Females	
25	0.04	0.03	0.06	0.08	0.02
30	0.04	0.03	0.06	0.08	0.02
35	0.04	0.03	0.06	0.08	0.06
40	0.10	0.09	0.15	0.27	0.06
45	0.13	0.10	0.20	0.30	0.11
50	0.25	0.14	0.37	0.43	0.24
55	0.45	0.19	0.67	0.57	0.41
60	0.71	0.25	1.06	0.76	0.41
Ref:	9 x 50%	10 x 25%	9 x 75%	10 x 75%	257 x 100%

**ACTUARIAL ASSUMPTIONS FOR
CITY OF DEARBORN AS OF JUNE 30, 2012**

Sample Ages	% of Active Members Separating within Next Year			
	Police			
	Duty Disability		Non-Duty Disability	
	Males	Females	Males	Females
25	0.05	0.07	0.02	0.03
30	0.05	0.07	0.02	0.03
35	0.05	0.07	0.02	0.03
40	0.14	0.25	0.06	0.11
45	0.19	0.28	0.08	0.12
50	0.34	0.40	0.15	0.17
55	0.63	0.54	0.27	0.23
60	0.99	0.71	0.42	0.31
Ref:	9 x 70%	10 x 70%	9 x 30%	10 x 30%

Sample Ages	% of Active Members Separating within Next Year			
	Fire			
	Duty Disability		Non-Duty Disability	
	Males	Females	Males	Females
25	0.02	0.02	0.01	0.01
30	0.02	0.02	0.01	0.01
35	0.02	0.02	0.01	0.01
40	0.04	0.07	0.01	0.02
45	0.05	0.08	0.02	0.03
50	0.10	0.11	0.03	0.04
55	0.18	0.15	0.06	0.05
60	0.28	0.20	0.10	0.07
Ref:	9 x 20%	10 x 20%	9 x 7%	10 x 7%

ACTUARIAL ASSUMPTIONS FOR CITY OF DEARBORN AS OF JUNE 30, 2012

Retiree Opt Outs: Based on current statistics we have assumed the following percentage of members will opt out of retiree medical insurance.

Police:	18%
Fire:	13%
Operative and Non-Operative:	20%

Data was not available regarding members who opt back in. We have assumed that members do not opt in once they opt out. However, data should be collected on these members in future valuations so that a better estimate can be made. To the extent that a significant number of members opt back into the program in the future, liabilities shown in this report may be understated.

Coverage: 60% of General members and 80% of Police and Fire members were assumed to elect two person coverage. 40% of General members and 20% of Police and Fire members were assumed to elect one person coverage.

The data about persons now covered was furnished by the Controller's administrative staff. Although examined for general reasonableness, the data was not audited by the Actuary.

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA).

Health cost increases: See table below.

Medical and Drug Trend Rates	
Year Beginning July 1,	Intermediate
2013	9.00%
2014	8.25
2015	7.50
2016	6.75
2017	6.25
2018	5.75
2019	5.25
2020	4.75
2021	4.25
2022 & later	3.75

**ACTUARIAL ASSUMPTIONS FOR
CITY OF DEARBORN AS OF JUNE 30, 2012**

Miscellaneous and Technical Assumptions

Decrement Operation:	Disability and turnover decrements do not operate retirement eligibility.
Decrement Relativity:	Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
Decrement Timing:	Decrements of all types are assumed to occur mid-year.
Eligibility Testing:	Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
Incidence of Contributions:	Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.

APPENDIX A
OVERVIEW

GASB BACKGROUND

The purpose of this valuation is to provide information on the cost associated with providing postemployment benefits other than pensions, or OPEB, to current and former employees. The information is designed to assist you in complying with Governmental Accounting Standards Board (GASB) Statements No. 43 and No. 45. OPEB benefits are most often associated with postemployment health care, but cover almost any benefit not provided through a pension plan, including life insurance, dental and vision benefits. It is important to note that OPEB benefits, by definition, do not include benefits *currently* being provided to active employees – however, this report includes the liabilities for benefits expected to be paid to current active employees in the future when they retire.

GASB Statements No. 43 and No. 45 were released in the spring of 2004. GASB Statement No. 43 covers the accounting rules for OPEB *plans* while GASB Statement No. 45 describes the rules for *employers* sponsoring OPEB plans. Your auditor can assist you in determining which statements apply to your particular situation.

The specific items required to be disclosed on an OPEB sponsor's financial statements are described in detail in GASB Statements No. 43 and No. 45.

GASB Statement No. 45

Among the requirements of Statement No. 45 are recognition each year of an expense called the Annual OPEB Cost, and the accumulation of a liability to be disclosed on the employer's Statement of Net Assets called the Net OPEB Obligation (NOO).

The fundamental items required to determine the Annual OPEB Cost and the NOO are:

- the Annual Required Contribution (ARC)
- the Employer's Contributions in relation to the ARC

Although GASB does not require OPEB contributions, it has chosen to call the base component of the annual OPEB cost the Annual Required Contribution. The ARC is provided in this report.

GASB BACKGROUND (CONCLUDED)

Paragraph 13g. of Statement No. 45 states:

“An employer has made a contribution in relation to the ARC if the employer has:

1. made payments of benefits directly to or on behalf of a retiree or beneficiary,
2. made premium payments to an insurer, or
3. irrevocably transferred assets to a trust, or equivalent arrangement in which Plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the Plan and are legally protected from creditors of the employer(s) or plan administrator.

For each fiscal year shown in this report, we have provided the ARC and the estimated benefits and/or premiums (based on valuation assumptions).

The NOO is the cumulative difference between the Annual OPEB Cost each year and the Employer’s Contribution in relation to the ARC. The Annual OPEB Cost for a year is equal to:

- the ARC, plus
- interest on the prior year’s NOO, plus
- amortization of the prior year’s NOO.

The Annual OPEB Cost and NOO are generally developed by the Plan Sponsor’s auditor based on information contained herein and elsewhere.

GASB Statement No. 43

If the Plan has assets for Statement No. 43 purposes, then certain additional information useful in complying with the Statement is contained in this report.

OPEB PRE-FUNDING

Many employers fund retiree health care benefits using the pay-as-you-go (or cash disbursement) method. Under this method, the employer's annual contribution is equal to the actual disbursements during the year for OPEB for retired employees. This method of funding will result in increasing contributions over time. First, per capita cash disbursements will tend to increase from year to year as the cost of health care services, or the utilization of these services, increases. Second, the number of retired members is likely to increase for years to come. The more retirees, the greater the disbursements as a percentage of employee payroll.

A retiree health care plan is similar to a defined benefit pension plan in that promises are made to employees to provide them with a benefit payable at some future date. For defined benefit pension plan sponsors, a common funding objective is to contribute to a fund, annual amounts which will i) remain level as a percentage of active member payroll, and ii) when combined with present assets and future investment return be sufficient to meet the financial obligations of the Plan to current and future retirees.

The GASB statements are not funding requirements. They are accounting standards that require Plan sponsors to calculate the annual expense associated with OPEB using certain methods.

The ultimate determination as to the level of pre-funding will be the result of decisions made in an attempt to support benefit security for members and the fiscal management needs of the employer.

APPENDIX B

GLOSSARY

Accrued Service. The service credited under the plan which was rendered before the date of the actuarial valuation.

Actuarial Accrued Liability. The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as "accrued liability" or "past service liability".

Actuarial Assumptions. Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

Actuarial Cost Method. A mathematical budgeting procedure for allocating the dollar amount of the "actuarial present value of future plan benefits" between the actuarial present value of future normal cost and the actuarial accrued liability. Sometimes referred to as the "actuarial funding method".

Actuarial Equivalent. A single amount or series of amounts of equal value to another single amount or series of amounts, computed on the basis of the rate(s) of interest and mortality tables used by the plan.

Actuarial Present Value. The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Amortization. Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.

GLOSSARY

Annual Required Contribution (ARC). The ARC is the normal cost plus the portion of the unfunded actuarial accrued liability to be amortized in the current period. The ARC is an amount that is actuarially determined in accordance with the requirements so that, if paid on an ongoing basis, it would be expected to provide sufficient resources to fund both the normal cost for each year and the amortized unfunded actuarial accrued liability.

Governmental Accounting Standards Board (GASB). GASB is the private, nonpartisan, nonprofit organization that works to create and improve the rules U.S. state and local governments follow when accounting for their finances and reporting them to the public.

Implicit Rate Subsidy. It is common practice for employers to allow retirees to continue in the employer's group health insurance plan (which also covers active employees), often charging the retiree some portion of the premium charged for active employees. Under the theory that retirees have higher utilization of services, the difference between the true cost of providing retiree coverage and what the retiree is being charged is known as the implicit rate subsidy.

Medical Trend Rate (Health Care Inflation). The increase in the cost of providing health care benefits over time. Trend includes such elements as pure price inflation, changes in utilization, advances in medical technology, and cost shifting.

Normal Cost. The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as "current service cost." Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.

Other Postemployment Benefits (OPEB). OPEB are postemployment benefits other than pensions. OPEB generally takes the form of health insurance, dental, vision, prescription drugs, life insurance or other health care benefits.

Reserve Account. An account used to indicate that funds have been set aside for a specific purpose and are not generally available for other uses.

GLOSSARY

Unfunded Actuarial Accrued Liability. The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as "unfunded actuarial accrued liability".

Valuation Assets. The value of current plan assets recognized for valuation purposes.

March 15, 2013

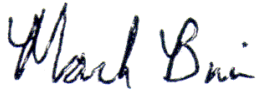
Mr. James J. O'Connor
Finance Director
City of Dearborn Retirement Systems
4500 Maple, City Hall
Dearborn, Michigan 48126

Re: Post-Retirement Health Coverages June 30, 2012 Valuation

Dear Jim:

Enclosed are 8 copies of our report of the actuarial valuation of the City of Dearborn Retiree Health Care Plan.

Respectfully submitted,

A handwritten signature in black ink that reads "Mark Buis". The signature is written in a cursive style with a large initial "M".

Mark Buis, FSA, EA, MAAA

MB:sc
Enclosures