



**OPEB Valuation
City of Duluth
as of 6/1/2009**

Report Prepared March 31, 2010

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City of Duluth OPEB Valuation

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ACTUARIAL CERTIFICATION

I, Mary T. Chandler, am a consulting actuary associated with the firm CBIZ Benefits & Insurance Services of Ohio, Inc. I am a member of the American Academy of Actuaries and meet its qualification standards to provide statements of actuarial opinion for OPEB valuations. I have completed an actuarial valuation of the medical, pharmacy, dental, and life insurance benefits for the City of Duluth as of June 1, 2009. This report contains the results of the valuation.


To the best of my knowledge and belief, the information supplied in this report is complete and accurate. In my opinion, the assumptions used in the valuation comply with the Governmental Accounting Standards Board Statement 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions" and Statement 43, "Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans". The assumptions are related reasonably to the past experience of the Plan, and they represent my best estimate of anticipated experience under the Plan, based on the information furnished to me. Nevertheless, the actual costs of the plan in the future will differ from the results of the valuation, as the emerging experience varies from the assumptions projected in the valuation.

My opinion does not extend to the compliance of this Plan under the Internal Revenue Code.

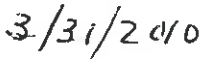
I have relied on the City of Duluth for the accuracy and completeness of the benefit plans, claims, expenses, funding rates, and the employee census, which I have not audited. I reviewed the data for reasonableness and consistency and have provided the City with summaries of the plan provisions and demographics.

This report has been prepared for the use and benefit of the City in assessing the effect of GASB Statements No. 43 and 45 on accounting for post-employment benefits other than pensions. It should not be relied upon for other purposes. It is not intended to benefit any other party. It may be shared in its entirety with all auditors and the general public.

This actuarial valuation was prepared in accordance with the applicable Statements of the Governmental Accounting Standards Board and the Actuarial Standards of Practice issued by the American Academy of Actuaries



Mary T. Chandler
Fellow of the Society of Actuaries
Member of the American Academy of Actuaries



Date





City of Duluth OPEB Valuation

Valuation Highlights

Discount Rate

The discount rate remained at 5.7%, as the plan continues to be funded and administered through a health care trust fund.

Implicit Liability

The contributions are based on medical costs for the entire group of active employees, retirees, and dependents. The rates paid on behalf of the retirees are less than what they would pay if their rates were based on the experience of just the retiree population. The contributions on behalf of the active employees are higher than their costs because they are subsidizing costs for the retirees. This subsidy is what GASB 45 refers to as the "implicit liability", which must be measured and included in Duluth's reported liability for retiree benefits.

Annual Required Contribution (ARC)

The ARC for 2009 decreased to \$17,615,054 from \$24,358,435 in 2008. The decrease was due to the movement of retirees to the same plan that covers active employees, as well as to changes in assumptions and plan experience during 2008.

Net OPEB Obligation

The Net OPEB Obligation increased to \$17,821,316 from \$10,566,975 in 2008. The increase represents the difference between the Annual OPEB Expense of \$17,474,172 and the benefit payments of \$10,219,831.

Actuarial Accrued Liability (AAL)

The AAL decreased to \$224,338,111 as of June 1, 2009, from \$278,034,377 the year before. The decrease was primarily the result of moving the retirees to the same plan covering the active employees and to updates in the actuarial assumptions to reflect anticipated experience of the plan.





City of Duluth OPEB Valuation

Summary of Financial Results

	Enterprise	General	Total
Actuarial Present Value of Benefits	\$44,206,406	\$194,884,761	\$239,091,167
Actuarial Accrued Liability per employee	\$39,938,826 \$226,925	\$184,399,285 \$290,393	\$224,338,111 \$276,619
Assets	\$2,980,227	\$13,759,837	\$16,740,064
Amortization of Liability Over 30 Years per employee	\$2,599,383 \$14,769	\$12,001,466 \$18,900	\$14,600,849 \$18,004
Normal Cost with Interest per employee	\$698,126 \$3,967	\$2,316,078 \$3,647	\$3,014,205 \$3,717
Annual Required Contribution per employee	\$3,297,510 \$18,736	\$14,317,544 \$22,547	\$17,615,054 \$21,720
Number of Active Employees	176	635	811
Number of Fully Eligible Active Employees	41	308	349
Average Age	48.6	44.7	45.5
Percent Male	81%	69%	71%
Number of Retirees and Spouses	289	1,139	1,428
Average Age	68.1	65.4	65.9
Percent Male	76%	76%	76%



City of Duluth OPEB Valuation

Plan Description

The City of Duluth Employee Benefit Plan is a single-employer defined benefit healthcare plan, funded and administered by the City. The authority to establish and amend benefits is assigned to the City. The Employee Benefit Plan will be providing the same medical, pharmacy, and dental insurance benefits to eligible retirees and their spouses as it provides to active employees. The the City also provides a life insurance benefit of \$35,000 to retired supervisors and \$25,000 to all other retirees.

Details about employee eligibility and retiree contributions can be found in the Plan Provisions section of this report.

The City of Duluth issues a publicly available financial report that includes financial statements and the required supplementary information for the Employee Benefit Plan.



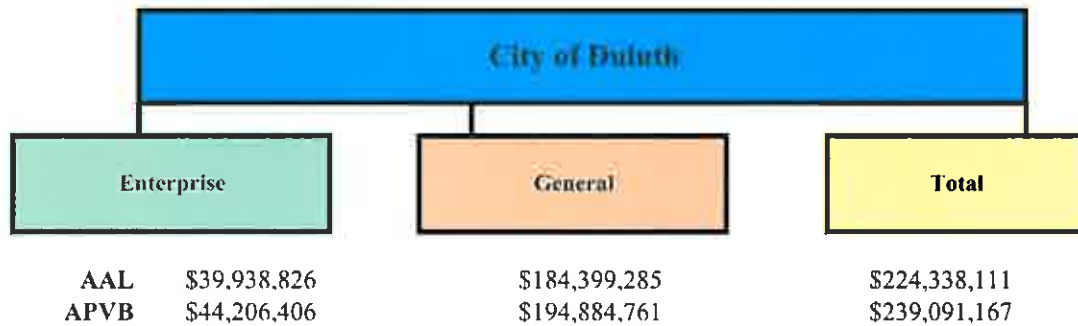
City of Duluth OPEB Valuation

Actuarial Accrued Liability (AAL)

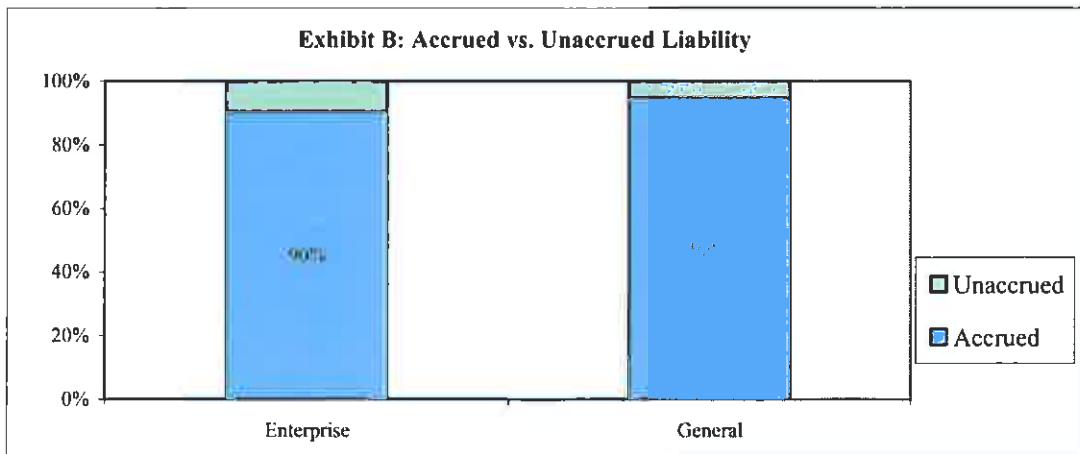
The Actuarial Present Value of Benefits (APVB) represents the total value of benefits in today's dollars that are expected to be received by the current employees, both the benefits that have been accrued to date and those that have not yet been earned. The Actuarial Accrued Liability (AAL) is the portion of the APVB that has already been earned as of the valuation date.

The method of accrual can be one of seven cost methods allowed by the GASB 45 standards. For the City of Duluth, the Projected Unit Credit method was used, which spreads benefit costs from the date of hire to the projected date when an employee is fully eligible to receive benefits. This method typically produces the lowest AAL of all the methods allowed.

Exhibit A: GASB 45 Overview as of 6/1/2009



The portion of accrued and unaccrued liability is illustrated in the following chart:





City of Duluth OPEB Valuation

Annual Required Contributions

The City of Duluth can contribute the Annual Required Contribution (ARC), an amount actuarially determined according to the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the Normal Cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The ARC will be used by the auditor to construct a historical Schedule of Employer contributions for the City's financial statement notes. Although there is no requirement to actually contribute the ARC or any other amount, rating agencies will consider the City's plan of action to address the unfunded liabilities when assessing the overall creditworthiness of the City.

Contributions for Year Beginning 6/1/2009

<u>Normal Cost Component</u>	<u>Enterprise</u>	<u>General</u>	<u>Total</u>
Normal Cost	\$660,479	\$2,191,181	\$2,851,660
Interest	<u>\$37,647</u>	<u>\$124,897</u>	<u>\$162,545</u>
Total Normal Cost	\$698,126	\$2,316,078	\$3,014,205
 <u>Amortization Component</u>			
Actuarial Accrued Liability	\$39,938,826	\$184,399,285	\$224,338,111
Less Assets	<u>\$2,980,227</u>	<u>\$13,759,837</u>	<u>\$16,740,064</u>
Unfunded Actuarial Accrued Liability	\$36,958,599	\$170,639,448	\$207,598,047
Amortize Over 30 Years	<u>15.02866</u>	<u>15.02866</u>	<u>15.02866</u>
Amortization Payment	\$2,459,209	\$11,354,272	\$13,813,481
Interest on Amortization Payment	<u>\$140,175</u>	<u>\$647,194</u>	<u>\$787,368</u>
Total Amortization Payment	\$2,599,383	\$12,001,466	\$14,600,849
 *Annual Required Contribution	 <u>\$3,297,510</u>	 <u>\$14,317,544</u>	 <u>\$17,615,054</u>

* Assumes that the contribution will be made May 31, 2010.



City of Duluth OPEB Valuation

Annual OPEB Cost

The City of Duluth's Net Other Post Employment Benefit Obligation is calculated based on the Annual Required Contribution, which was explained on the previous page. The following table shows the components of the City's Annual OPEB Expense for the year, the estimated benefit payments and contributions to the plan, and changes in the City's Net OPEB Obligation to the Employee Benefit Plan.

ANNUAL OPEB COST AND NET OPEB OBLIGATION

	6/1/2009 to 5/31/2010	6/1/2008 to 5/31/2009	6/1/2007 to 5/31/2008
1. Net OPEB Obligation as of beginning of year	\$10,566,975	(\$1,016,418)	\$0
2. Annual Required Contribution at end of year	\$17,615,054	\$24,358,435	\$23,742,663
3. Interest on Net OPEB Obligation to end of year	\$602,318	(\$57,936)	\$0
4. Adjustment to Annual Required Contribution			
(a) Amortization of Net OPEB Obligation	\$703,122	(\$68,546)	\$0
(b) Interest on amortization	\$40,078	(\$3,907)	\$0
(c) Total Adjustment : (a) + (b)	\$743,200	(\$72,453)	\$0
5. Annual OPEB Expense : 2 + 3 - 4(c)	\$17,474,172	\$24,372,951	\$23,742,662
6. Benefit Payments	\$7,419,831	\$9,389,558	\$9,559,080
7. Additional Employer Contribution	\$2,800,000	\$3,400,000	\$15,200,000
8. Change in Net OPEB Obligation : 5 - 6 - 7	\$7,254,341	\$11,583,393	(\$1,016,418)
9. Estimated Net OPEB Obligation at end of year *	\$17,821,316	\$10,566,975	(\$1,016,418)

* These amounts were calculated using a 30-year amortization period.

Annual OPEB Expense, percentage of Annual OPEB Expense contributed to the Employee Benefit Plan, and the Net OPEB Obligation for the current year and two preceding years

Date	Annual OPEB Expense	Annual OPEB Contribution	Percent Contributed	Net OPEB Obligation
5/31/2010	\$17,474,172	\$10,219,831	58%	\$17,821,316
5/31/2009	\$24,372,951	\$12,789,558	52%	\$10,566,975
5/31/2008	\$23,742,662	\$24,759,080	104%	(\$1,016,418)



City of Duluth OPEB Valuation

Funded Status

Actuarial valuations involve estimates of the value of reported amounts, as well as assumptions about the probability of events in the future. The funded status of the plan and the Annual Required Contributions are subject to continual revision as actual results tabulated at the end of the year are compared to past expectations, and as new projections are made about the future.

1. Actuarial Accrued Liability	\$224,338,111
2. Actuarial Value of Plan Assets	\$16,740,064
3. Funding shortfall or (excess) (1) - (2):	<u>\$207,598,047</u>
4. Funded Ratio : (2) / (1)	7.46%
5. Annual OPEB Expense	\$17,474,172

AAL Reconciliation:

Prior Actuary's AAL 6/1/2007:	\$267,381,748
Expected AAL at 6/1/2009:	\$288,078,879
Change in AAL due to Plan Experience	-\$4,638,070
Change in AAL due to Plan and Assumption Changes:	<u>-\$59,102,698</u>
Actual AAL at 6/1/2009:	<u>\$224,338,111</u>



City of Duluth OPEB Valuation

Schedule of Funding Progress

The required schedule of funding progress provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Annual Covered Payroll (c)	UAAL as Percent of Payroll (b - a) / c
6/1/2007	\$13,700,000	\$267,381,748	\$253,681,748	5.12%		
6/1/2008	\$13,746,611	\$278,034,377	\$264,287,766	4.94%		
6/1/2009	\$16,740,064	\$224,338,111	\$207,598,047	7.46%	\$51,536,853	402.8%

City of Duluth OPEB Valuation

Projected Retiree Benefit Payments

Exhibit C is a graph that shows the projection of expected benefit payments under the retiree benefit plans. These payments only reflect those participants who have already been hired or who are retired. Expected benefit payments are equal to the number of retirees each year times the per retiree cost. The first year's projected benefit payments total \$7,419,831. As the last participants retire and reach the end of their benefit period, the benefit payments decline and eventually would reach zero. Exhibit D is a table showing the first 10 years of expected benefit payments.

This projection does not take into account the effect of new hires. As new hires come into the plan, they replace those retirees that have or will receive benefit payments. Therefore, it is not advisable to use these projections for financial planning.

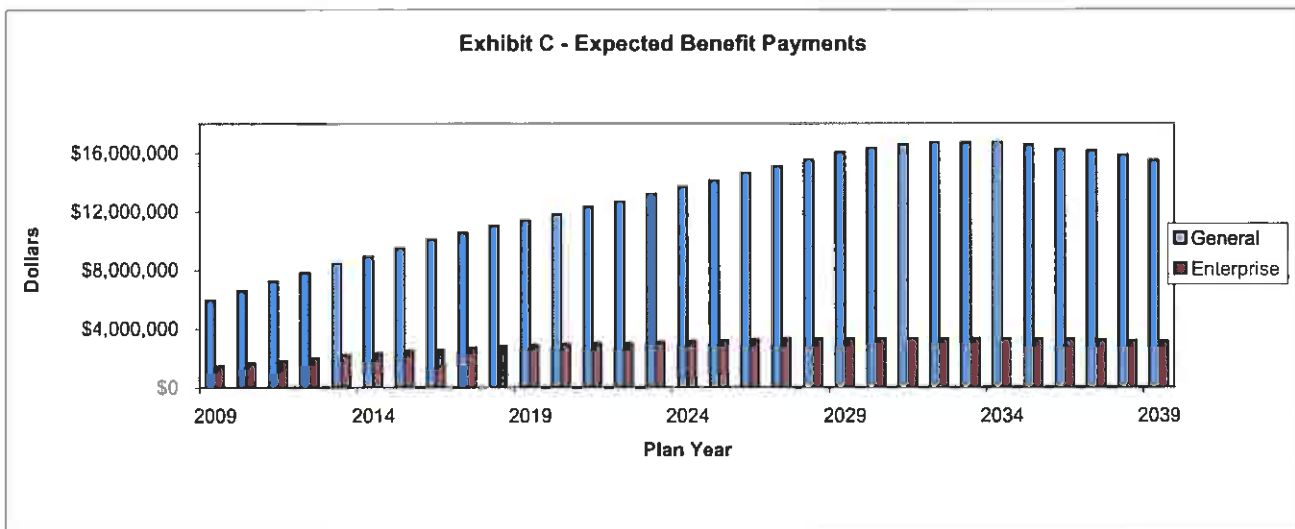


Exhibit D: First 10 Years of Expected Benefit Payments

Plan Year	Enterprise	General	Total
2009	\$1,462,485	\$5,957,346	\$7,419,831
2010	\$1,655,922	\$6,600,657	\$8,256,579
2011	\$1,841,596	\$7,241,560	\$9,083,156
2012	\$2,015,707	\$7,832,617	\$9,848,324
2013	\$2,216,170	\$8,470,888	\$10,687,058
2014	\$2,338,905	\$8,933,453	\$11,272,358
2015	\$2,494,519	\$9,499,713	\$11,994,232
2016	\$2,595,871	\$10,105,769	\$12,701,640
2017	\$2,726,694	\$10,555,685	\$13,282,379
2018	\$2,845,276	\$11,028,593	\$13,873,869

City of Duluth OPEB Valuation

Projected Liability

Exhibit E shows the 30-year projection of the Actuarial Accrued Liability (AAL) and the Unfunded Actuarial Accrued Liability (UAAL) for the retiree benefits. In this example, we assume the City makes the same annual contributions as shown in the prior exhibit. The projections show that there would be enough assets to cover the yearly expected benefit payments and to fully fund the UAAL by the year 2039.

Exhibit E: 30-Year Projected Liability Table

Plan Year	Benefit Payments	Normal Cost ²	Interest Cost ³	AAL at Beginning of Year ⁴	Trust Contribution ¹	Assets at Beginning of Year ⁵	UAAL at Beginning of Year
2009	\$7,419,831	\$2,851,660	\$12,741,282	\$224,338,111	\$17,615,054	\$16,740,064	\$224,338,111
2010	8,256,579	2,480,587	13,162,482	232,511,222	17,222,830	27,680,936	204,830,287
2011	9,083,156	1,854,428	13,524,589	239,897,712	16,560,979	37,992,948	201,904,764
2012	9,848,324	1,512,156	13,842,439	246,193,573	16,199,198	47,381,087	198,812,486
2013	10,687,058	1,376,149	14,124,971	251,699,844	16,055,439	56,155,895	195,543,949
2014	11,272,358	1,250,650	14,375,769	256,513,906	15,922,786	64,424,801	192,089,105
2015	11,994,232	1,120,731	14,596,257	260,867,968	15,785,462	72,430,633	188,437,335
2016	12,701,640	1,026,640	14,783,209	264,590,724	15,686,008	80,013,310	184,577,414
2017	13,282,379	947,803	14,939,562	267,698,934	15,602,677	87,201,456	180,497,477
2018	13,873,869	791,119	15,062,491	270,303,920	15,437,062	94,118,935	176,184,984
2019	14,267,337	714,057	15,159,886	272,283,661	15,355,607	100,656,982	171,626,679
2020	14,774,052	621,007	15,231,917	273,890,267	15,257,253	107,081,716	166,808,551
2021	15,318,564	542,784	15,273,651	274,969,139	15,174,572	113,253,349	161,715,789
2022	15,668,661	464,235	15,287,712	275,467,009	15,091,545	119,134,269	156,332,740
2023	16,279,873	366,104	15,269,688	275,550,296	14,987,821	124,907,438	150,642,857
2024	16,836,395	268,169	15,211,752	274,906,215	14,884,304	130,277,564	144,628,651
2025	17,361,470	236,974	15,117,898	273,549,741	14,851,331	135,278,106	138,271,635
2026	17,920,220	208,753	14,986,209	271,543,143	14,821,501	139,990,873	131,552,269
2027	18,406,798	188,029	14,816,013	268,817,885	14,799,596	144,367,985	124,449,900
2028	18,863,647	167,196	14,608,029	265,415,129	14,777,575	148,472,434	116,942,695
2029	19,350,245	138,618	14,359,684	261,326,707	14,747,368	152,319,127	109,007,579
2030	19,673,919	97,557	14,071,686	256,474,763	14,703,967	155,854,601	100,620,162
2031	19,880,752	63,603	13,750,171	250,970,087	14,668,077	159,215,425	91,754,662
2032	20,061,316	44,060	13,398,164	244,903,109	14,647,421	162,519,280	82,383,829
2033	20,004,668	33,146	13,021,846	238,284,017	14,635,884	165,805,159	72,478,858
2034	20,038,013	24,732	12,624,298	231,334,341	14,626,991	169,325,037	62,009,304
2035	19,823,554	17,249	12,208,727	223,945,358	14,619,081	173,002,373	50,942,985
2036	19,516,424	11,290	11,783,957	216,347,780	14,612,783	177,101,893	39,245,886
2037	19,377,324	6,204	11,347,469	208,626,602	14,607,407	181,744,550	26,882,053
2038	19,027,913	1,021	10,899,646	200,602,952	14,601,928	186,789,471	13,813,481
2039				192,475,706		192,475,706	0

¹ 30-year amortization period: the initial \$14,600,849 amortization amount is contributed each year.

² Normal Cost: The annual increase in the Accrued Actuarial Liability due to the additional year of service earned by the active participants. This does not include new entrants.

³ Interest Cost: A full year of interest on the Normal Cost and AAL, less a half year of interest on the benefit payments.

⁴ The previous year's AAL plus the Normal and Interest Costs less the benefit payments equals the next year's AAL.

⁵ Previous year's assets (with interest) plus contributions less benefit payments (with a half year of interest) equal the next year's assets.

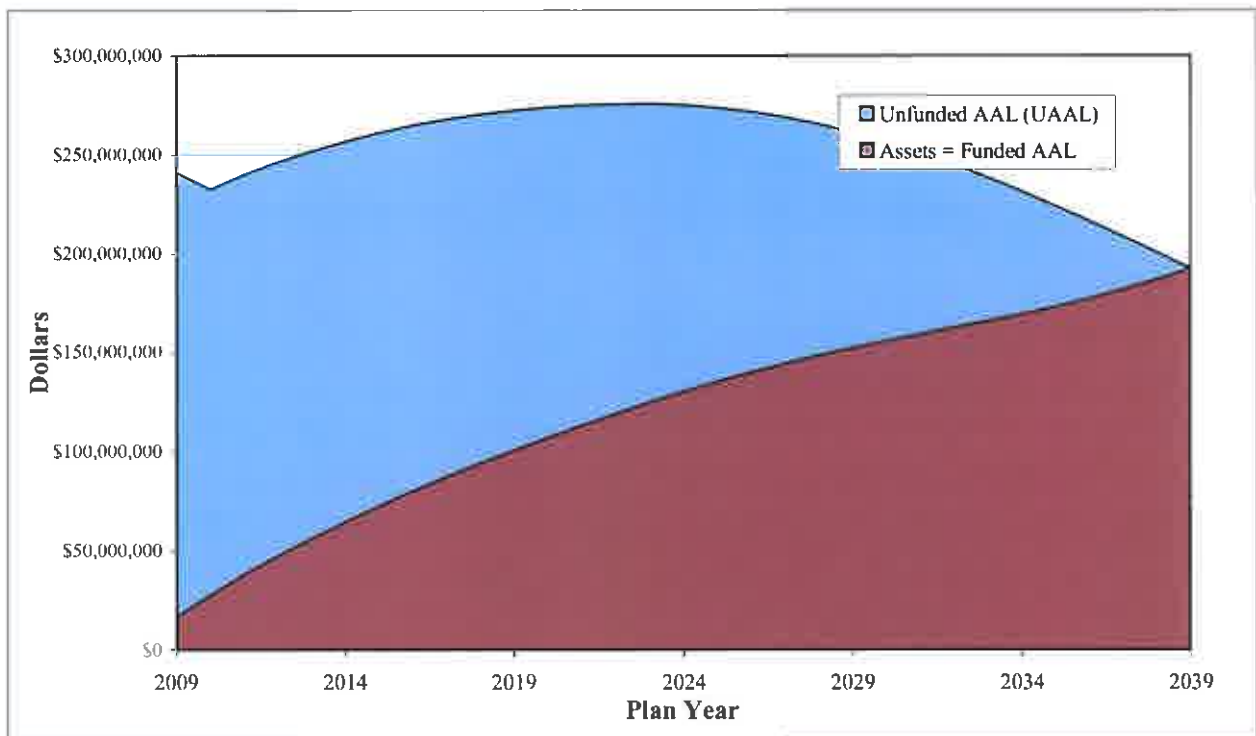


City of Duluth OPEB Valuation

Projected Liability

Exhibit F is a GRAPHICAL 30-year projection of the AAL and the UAAL for retiree benefits. In this example we assume annual contributions equal to the ARC, which will amortize the UAAL and fund the on-going normal costs and interest costs. A closed 30-year amortization period was used for this projection, whereas in actual future valuations, an open 30-year amortization period would be used. With this example, there would be enough assets available to cover the yearly expected benefit payments, and the UAAL would be fully funded by the year 2039.

Exhibit F: Projected Actuarial Accrued Liability (AAL) and Unfunded AAL (UAAL) for Closed 30-Year Funding





City of Duluth OPEB Valuation

Statements of Plan Net Assets

Assets	<u>5/31/2009</u>
Cash and short-term investments	\$61,860
Receivables	
Employer	\$0
Employer - long-term	\$0
Employee	\$0
Interest and dividends	<u>\$0</u>
Total receivables	\$0
Investments, at fair value	
Fixed Income Fund	\$10,078,395
Equity Index Fund	<u>\$6,599,809</u>
Total investments	\$16,678,204
Properties, at cost, net of accumulated depreciation	\$0
Total Assets	\$16,740,064
Liabilities	
Accounts payable	\$0
Other	\$0
Total Liabilities	\$0
Net assets held in trust for other post-employment benefits	\$16,740,064



City of Duluth OPEB Valuation

Statement of Changes in Plan Net Assets June 1, 2008 through May 31, 2009

Additions	OPEB Trust
Contributions	
Employer	\$3,400,000
Plan member	<u>\$0</u>
Total contributions	\$3,400,000
Investment income	
Net appreciation in fair value of investments	(\$2,440,575)
Interest and Dividends	\$693,591
Less investment expense	<u>(\$1,783)</u>
Net investment income	(\$1,748,768)
Employer interest on long-term contracts	\$0
Total additions	\$1,651,232
Deductions	
Benefits	\$0
Administrative expense	\$0
Total deductions	\$0
Net increase	\$1,651,232
Net assets held in trust for other post-employment benefits	
Beginning of year	\$15,088,832
End of year	\$16,740,064
Client reported	\$16,740,064
Difference	\$0

City of Duluth, MN

RETIREE HEALTH CARE PLAN PROVISIONS

Valuation Date June 1, 2009

Retiree Benefits 1) Continuation of medical, pharmacy, and dental benefits under the City's group plan. All current and future retirees are assumed to be covered under the same plans that cover active employees.
 2) Life Insurance:
 \$25,000 life insurance for all eligible retirees
 Additional paid-up \$10,000 life insurance for eligible supervisors
 3) Long-Term Disability: eligible to continue receiving health benefits and \$50,000 life insurance

Funding Rates

2009 Tier	Medical		Pharmacy		Dental		
	Pre-65	Post-65	Pre-65	Post-65	Low	High	Confid
Single	\$408.41	\$319.29	\$66.67	\$66.67	\$32.00	\$73.00	\$52.00
Single+One	\$1,023.55	\$606.49	\$146.66	\$146.66	\$65.00	\$122.00	\$105.00

Life insurance: \$0.30 per month per thousand

Eligibility

Police and Firefighters:
 Any age with 5+ years of service if hired before 1/1/2007
 Age 50 with 5+ years of service if hired after 12/31/2006
Airport: Age 55 with 15+ years of service
All Others: Age 55 with 5+ years of service
Supervisors: May be eligible if involuntarily terminated

Dependents

Spouses and Surviving Spouses and children up to age 25 are eligible for healthcare benefits.

Length of Benefits

Retiree: Lifetime
Spouse: Lifetime
Surviving Spouse: Lifetime or until remarriage

Cost Sharing

Deductible per person, per family
 per person \$250
 per family \$500

Coinsurance 80%

Out-of-Pocket Limit
 per person \$1,250
 per family \$2,500

Lifetime Maximum \$2 million

City of Duluth, MN

RETIREE HEALTH CARE PLAN PROVISIONS

Rx Copays

Retiring before 6/1/2004

generic \$8
brand \$12

After 6/1/2004, before 10/1/2007

generic \$7
brand \$12 or \$20

After 10/1/2007

generic \$0
brand \$15 or 30%

Medicare Part A and B

Coordination - Medicare pays Primary
Enrollment Required

Medical and Rx Contributions

City Police and Fire:

Hired after 12/31/2006: Retiree pays full premium.
Hired before 1/1/2007: Retiree contribution varies by length of
service, as shown below.

City Supervisory and Confidential:

Hired after 12/31/2005: Retiree pays full premium.
Hired before 1/1/2006: Retiree contribution varies by length of
service, as shown below.

All Other City Employees:

Hired after 12/31/2006: Retiree pays full premium.
Hired before 1/1/2007 with 15 years of service, and who retire
before 12/15/2009: City pays full premium.
Hired before 1/1/2007: Retiree contribution varies by length of
service, as shown below.

Airport Employees:

Current retirees: DAA pays full premium.
Hired before 7/1/2007: DAA pays full premium for retiree and
80% of premium for family members.
Hired after 7/1/2007: DAA pays \$250 for retiree and \$250 for
one additional family member.

Dental Contribution Retiree pays the full premium.

Life Insurance City pays the full premium.

City of Duluth, MN

ACTUARIAL ASSUMPTIONS

Per Capita Plan Costs for 2009

The medical and pharmacy and dental costs reflect the claim costs for active employees and retirees. The costs include claims, reinsurance fees, and administrative expenses.

2009 Tier	Medical		Pharmacy		Dental		
	Pre-65	Post-65	Pre-65	Post-65	Low	High	Confid
Retiree	\$379.61	\$146.75	\$77.40	\$148.81	\$29.09	\$66.36	\$47.27
Retiree + Spouse	\$759.22	\$293.50	\$154.80	\$297.62	\$58.18	\$132.72	\$94.54

Aging of Plan Costs

Medical costs have been centered at age 50 for the pre-Medicare participants and at age 75 for the post-Medicare retirees. Aging factors are applied to the average cost for the group to reflect lower costs for younger retirees and higher costs for older retirees. Costs are aged 2% a year pre-Medicare and 1% a year after Medicare. Sample aged costs for Plan 3 Medical and Plan 1 Rx are show below:

Age	Yearly Plan Cost	Aging Factor	Aged Adj'd Plan Cost
25	\$5,484	0.598	\$3,280
35	\$5,484	0.728	\$3,992
45	\$5,484	0.888	\$4,870
55	\$5,484	1.082	\$5,934
65	\$3,547	0.896	\$3,178
75	\$3,547	0.990	\$3,511
85	\$3,547	1.094	\$3,880

Dental costs have not been aged, as utilization and costs under a capped plan for retirees are not assumed to vary significantly with age.

Medicare Offset

Members who are eligible for Medicare A and B are required to enroll. The City's plan pays secondary to Medicare. Future costs have not been reduced for Medicare D subsidies, in accordance with GASB 45.

Health Care Cost Trend Rates

Year	Med, Rx	Dental
2010	10.00%	5.00%
2011	9.50%	5.00%
2012	9.00%	5.00%
2013	8.50%	5.00%
2014	8.00%	5.00%
2015	7.50%	5.00%
2016	7.00%	5.00%
2017	6.50%	5.00%
2018	6.00%	5.00%
2019	5.50%	5.00%
2020+	5.00%	5.00%

City of Duluth, MN

ACTUARIAL ASSUMPTIONS

<u>Contribution Trend Rates</u>	Same as Health Care Cost Trend Rates above.
<u>Discount Rate</u>	5.70% GASB 43 and 45 stipulate that the discount rate should reflect the rate of return earned on the assets held in an irrevocable trust to fund retiree health care benefits.
<u>Election Rate</u>	<i>Current retirees:</i> Based on current coverage election. <i>Future retirees:</i> <ul style="list-style-type: none">➤ Of employees who receive a City contribution, 100% are assumed to elect medical benefits once they are eligible for retirement.➤ Of employees who pay the full premium, 25% are assumed to elect medical benefits once they are eligible for retirement.➤ 25% of members are assumed to elect dental benefits once they are eligible for retirement
<u>Spousal Election Rate</u>	<i>Current Retirees:</i> Based on current coverage election. <i>Future Retirees:</i> 65% of retirees who elect medical and/or dental coverage at retirement will elect to cover a spouse as well.
<u>Spouse Age Difference</u>	For future retirees, male spouses are assumed to be 3 years older, and female spouses are assumed to be 3 years younger. For current retirees, the spouse's actual age is used.
<u>Actuarial Cost Method</u>	Projected Unit Credit
<u>Amortization</u>	Level Dollar Open over 30 years
<u>Actuarial Value of Assets</u>	Market Value
<u>Attribution Period</u>	From the date of hire to first eligibility for retirement
<u>Mortality</u>	2007 Current Liability Combined Mortality Table (sex distinct)

City of Duluth, MN

ACTUARIAL ASSUMPTIONS

Termination Rates: The following termination tables incorporate all types of withdrawals such as disability, resignations, layoffs, and dismissals.

Age	Police, Fire	Others - Male	Others - Female
20	8.6%	8.4%	8.4%
30	2.8%	5.4%	5.4%
40	1.3%	3.0%	3.5%
50	0.5%	2.0%	2.5%
60	0.0%	0.0%	0.0%

Police and Fire hired before 1/1/2007 are eligible to retire after 5+ years of service.

Disability

Age	Rate
20	0.03%
30	0.03%
40	0.04%
50	0.21%
60	1.01%

Retirement Rates:

Age	Police, Fire	Other - Eligible for Rule of 90	Other - Not Eligible for Rule of 90	Airport
<50	Same as termination rates	0%	0%	0%
50-51	20%	0%	0%	0%
52	30%	0%	0%	0%
53-54	35%	0%	0%	0%
55-59	40%	67%	10%	10%
60	75%	67%	25%	25%
61	75%	67%	40%	40%
62-64	80%	67%	40%	40%
65	100%	50%	50%	50%
66-69	0%	40%	40%	40%
70	0%	60%	60%	60%
71	0%	100%	100%	100%

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CENSUS INFORMATION

Participants	Police	Fire	Other	Airport	Total
Retiree	137	144	453	13	747
SurvSpouse	28	28	86	3	145
Active	132	131	548	18	829
Total	297	303	1,087	34	1,721

% Male	Police	Fire	Other	Airport	Total
Retiree	89%	96%	75%	92%	82%
SurvSpouse	4%	0%	2%	0%	2%
Active	86%	92%	63%	67%	71%
Total	79%	85%	63%	71%	70%

Avg Age	Police	Fire	Other	Airport	Total
Retiree	64.2	65.6	68.8	68.6	67.3
SurvSpouse	72.8	72.6	74.8	78.3	74.1
Active	37.8	40.4	48.8	40.5	45.5
Total	53.3	55.4	59.2	54.6	57.4

City of Duluth, MN

NOTES TO THE AUDITOR:

Changes from the prior valuation:

1. All current retirees are assumed to transition to Medical Plan 3 and Rx Plan 1 effective 1/1/2010.
2. Supervisors are eligible for an additional \$10,000 of paid up life insurance after retirement, in addition to the \$25,000.
3. Medical and Rx costs have been aged 2% a year pre-Medicare and 1% a year post-Medicare.
4. Dental costs have not been aged, as utilization and cost patterns do not vary significantly by age when benefits are capped at a maximum dollar amount.

DEFINITIONS

This section provides definitions of many of the terms used in this report.

Actuarial Accrued Liability (AAL)	The portion of the Actuarial Present Value of Benefits allocated to past service based on the selected Actuarial Cost Method. In effect, this is the part of the future benefit that the employee has already “earned”.
Actuarial Cost Method	The method that is used to spread the value of benefits expected to be paid in the future over the years of employment remaining until the employee is fully eligible to receive benefits.
Actuarial Present Value of Benefits	The estimated value of projected benefits payable to plan members in the future, discounted back to the valuation date to reflect the time value of money.
Annual OPEB Expense	The amount recognized in the employer’s financial statement each accounting period for its contributions to an OPEB plan, on the accrual basis of accounting.
Annual Required Contribution (ARC)	The Normal Cost plus the part of the Unfunded Actuarial Accrued Liability that is amortized that year.
Discount Rate	The interest rate used to reflect the time value of money. The discount rate should reflect rates of return on high-quality fixed-income investments currently available, whose cash flows match the timing and amount of expected benefit payments in future years.
Employer’s Contributions	Contributions made in relation to the ARC. An employer has made a contribution if it has paid benefits directly to or on behalf of a retiree, made premium payments to an insurer, or irrevocably transferred assets to a dedicated trust which provides benefits to retirees.
Fair Value of Assets	The market value of the assets in the trust as of the valuation date.
Full Eligibility Date	The date that the employee has satisfied all of the requirements to receive full benefits under the plan.
Health Care Cost Trend Rates	Annual change in per capita claim rates due to factors such as health care inflation, utilization of services, and technological advances.

Market Related Value of Assets	The value of assets determined by using the asset valuation method that is used to calculate the expense.
Net Other Post Employment Benefit Obligation (NOO)	The accumulated value of the employer's contributions in excess of (less than) the annual OPEB Cost (Expense).
Normal Cost	The present value of benefits earned during the plan year, which is part of the annual expense.
Per Capita Claim Rates	The average cost of providing health care benefits covered by the plan to a participant after adjusting for Medicare reimbursements, deductibles, coinsurance, and co-payments.
Post-employment Benefit Plan	An arrangement between an employer and its employees, whereby an employer agrees to provide benefits after they retire in exchange for services. A plan may be written or implied by a well-defined practice of paying postretirement benefits or from oral representations made to current or former employees. In some situations, the "substantive plan" used to determine the expense might differ from the written plan.
Valuation Date	The date that the assets and liabilities are measured.