

**SPARTANBURG COUNTY RETIREE HEALTH CARE PLAN**  
ACTUARIAL VALUATION REPORT  
AS OF JUNE 30, 2007

# TABLE OF CONTENTS

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<b>Section</b>	<b>Page Number</b>	
	--	Cover Letter
		<b>Executive Summary</b>
	1-2	EXECUTIVE SUMMARY
<b>A</b>		<b>OVERVIEW</b>
	1-2	GASB Background
	3	GASB Standards
	4-5	OPEB Specific Assumptions
	6	Actuarial Cost Method
	7	OPEB Prefunding
<b>B</b>		<b>VALUATION RESULTS</b>
	1	Development of the Annual Required Contributions
	2	Determination of Unfunded Accrued Liability
	3	Comments
<b>C</b>		<b>SENSITIVITY ANALYSIS</b>
	1	Postemployment Health Insurance -- Sensitivity Tests
	2-3	Sensitivity Analysis
<b>D</b>		<b>RETIREE PREMIUM RATE DEVELOPMENT</b>
	1-2	Retiree Premium Rate Development
<b>E</b>		<b>SUMMARY OF BENEFITS</b>
	1-5	Summary of Benefits
<b>F</b>		<b>SUMMARY OF PARTICIPANT DATA</b>
	1	Schedule of Active members
	2	Schedule of Deferred and Retired Members
<b>G</b>		<b>ACTUARIAL COST METHOD AND ACTUARIAL ASSUMPTIONS</b>
	1	Valuation Methods
	2-10	Actuarial Assumptions
	11	Miscellaneous and Technical Assumptions
<b>Appendix</b>	1-2	Glossary



April 16, 2008

Ms. Linda Blackerby  
Budget Management Director  
Spartanburg County  
366 N Church St  
Spartanburg, SC 29304

Dear Ms. Blackerby:

Submitted in this report are the results of an Actuarial Valuation of the assets and benefit values associated with the employer financed retiree health benefits provided by Spartanburg County. The date of the valuation was June 30, 2007. The annual required contribution has been calculated for the fiscal year beginning July 1, 2008.

The actuarial calculations were prepared for purposes of complying with the requirements of Statements No. 43 and No. 45 of the Governmental Accounting Standards Board (GASB). The calculations reported herein have been made on a basis consistent with our understanding of these accounting standards. Determinations of the liability associated with the benefits described in this report for purposes other than satisfying Spartanburg County's financial reporting requirements may produce significantly different results. This report may be provided to parties other than Spartanburg County only in its entirety and only with the permission of Spartanburg County.

The valuation was based upon information, furnished by Spartanburg County, concerning retiree health benefits and individual employees, and financial data. Data was checked for internal consistency but was not otherwise audited.

To the best of our knowledge, this report is complete and accurate and was made in accordance with generally recognized actuarial methods. One or more of the undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the Academy of Actuaries to render the actuarial opinion herein.

Respectfully submitted,

Jack L. Beam, ASA, EA, MAAA

Brad Stewart, ASA

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# **EXECUTIVE SUMMARY**

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## **EXECUTIVE SUMMARY**

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### **Annual Required Contribution**

This report presents the annual expense required to be recognized by the plan sponsor for purposes of complying with the accounting requirements of Government Accounting Standards Board Statement No. 45. In addition, the plan may also need to comply with GASB Statement No. 43. Please consult with legal counsel and the auditors to determine whether you have a plan for GASB Statement No. 43 purposes.

The Annual Required Contribution (ARC) for the fiscal year beginning July 1, 2008 has been calculated under the two different interest rate assumptions. Below is a summary of the Annual Required Contribution. In the first year GASB Statement No. 45 is adopted, the annual OPEB cost required to be disclosed on the employer's financial statements is equal to the ARC. Actual claims/premiums paid on behalf of retirees may be treated as employer contributions in relation to the ARC and act to reduce the Net OPEB Obligation (NOO).

<u>Annual Required Contribution</u>	<u>Unfunded PAYGO</u>	<u>Funding Policy</u>
Fiscal Year Beginning 2008	\$6,061,195	\$4,512,041

For additional details please see Section B of the report.

### **Additional OPEB Reporting Requirements**

In addition to the annual OPEB cost described above, employers will have to disclose a Net OPEB Obligation (or asset). The Net OPEB Obligation is the cumulative difference between annual OPEB costs and annual employer contributions in relation to the ARC, accumulated from the implementation of Statement No. 45. The Net OPEB Obligation 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.

## EXECUTIVE SUMMARY

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### Liabilities and Assets

#### Unfunded PAYGO Assumption

This scenario assumes the current pay-as-you-go (PAYGO) funding policy will continue, i.e., the annual employer contributions each year are equal to the benefits that are paid on behalf of the retirees. Under this funding policy, GASB 45 requires the use of a discount rate consistent with the investment return earned on the employer's general assets. In this valuation, the discount rate is 4.50%.

The present value of all benefits expected to be paid to current plan members as of June 30, 2007 is \$107,284,686. The actuarial accrued liability, which is the portion of the \$107,284,686 attributable to service accrued by plan members as of June 30, 2007, is \$74,125,553. As of June 30, 2007, there is \$0 in valuation assets available to offset the liabilities of the plan.

The funded status of the plan, which is the ratio of plan assets to actuarial accrued liability, as of June 30, 2007 is 0.00%.

#### Funding Policy Assumption

This scenario assumes the employer will set up an irrevocable trust and change the funding policy so that the annual employer contributions are equal to the ARC. Under this funding policy, GASB 45 allows the use of a discount rate consistent with the investment return earned on the plan's assets. Dependent on the asset allocation of the investment pool, this rate should be based on longer term investments. In this valuation, the discount rate is 7.25%.

The present value of all benefits expected to be paid to current plan members as of June 30, 2007 is \$64,660,495. The actuarial accrued liability, which is the portion of the \$64,660,495 attributable to service accrued by plan members as of June 30, 2007, is \$48,954,848. As of June 30, 2007, there is \$0 in valuation assets available to offset the liabilities of the plan.

The funded status of the plan, which is the ratio of plan assets to actuarial accrued liability, as of June 30, 2007 is 0.00%.

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**SECTION A**  
OVERVIEW

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## **GASB BACKGROUND**

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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. 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 when they terminate employment at a future date.

The rising cost of health care has been a cause of concern to both individuals and employers who sponsor health care plans. The accounting community became concerned that many sponsors of public plans were accounting for the cost of their OPEB plans solely on the basis of benefits paid and that this method did not accurately reflect the ultimate cost of benefits promised to current and former employees. In 1988, the Governmental Accounting Standards Board (GASB) began working on a project to develop comprehensive standards for financial reporting of OPEB plans.

The GASB determined that an OPEB plan was similar to a pension plan in that benefits are earned during an active employee's working lifetime but paid out at a future date. In the GASB's view, accounting for OPEB should follow the same basic principle as accounting for public plan pension cost: these benefits are compensation for employees' services and should be accounted for during the period of time that services are performed.

## GASB BACKGROUND (CONCLUDED)

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The GASB worked on comprehensive standards for OPEB accounting for more than a decade, culminating with the release of GASB Statements No. 43 and No. 45 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. The effective dates of the Statements are based on the implementation of GASB Statement No. 34, based on the sponsor's annual revenue for the first fiscal year ending on or after June 15, 1999, and follow the schedule below:

<b>Total Annual Revenue In the First Fiscal Year Ending After June 15, 1999</b>	<b>GASB No. 43 OPEB Standards for the Plan's Financial Statements will be Effective for Periods Beginning After</b>	<b>GASB No. 45 OPEB Standards for the Employer's Financial Statements will be Effective for Periods Beginning After</b>
<b>Phase 1 Govts.</b> - \$100 million or more	December 15, 2005	December 15, 2006
<b>Phase 2 Govts.</b> - \$10 million or more, But less than \$100 million	December 15, 2006	December 15, 2007
<b>Phase 3 Govts.</b> - Less than \$10 million	December 15, 2007	December 15, 2008

## GASB STANDARDS

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Unlike pension plans, OPEB plans often do not have a formal document detailing the specific terms of the plan. Under GASB No. 43 and No. 45 the benefits to be accounted for are those provided by the *substantive plan* – loosely defined as the benefits covered by the plan as understood by the employer and plan members at the time of each actuarial valuation. The substantive plan provisions used in this valuation are summarized in Section D.

GASB also requires that the calculations assume the terms of the substantive plan continue indefinitely. It has been argued that there is a likelihood future OPEB plan provisions would be different than the current substantive plan (due to rising health care costs or social changes) and therefore liabilities based on the current substantive plan may overstate what will actually occur. However, the GASB Statement is designed to measure liabilities for the plan as it currently exists. While it may be reasonable to assume future changes in the OPEB plan for other purposes, recognition of anticipated changes is not allowed for purposes of accounting for OPEB.

The specific items required to be disclosed on an OPEB sponsor's financial statements are described in detail in GASB No. 43 and No. 45. In general terms, though, the plan sponsor is required to disclose an annual OPEB cost, the funded status of the plan and the funding progress on the valuation date. Although GASB does not require OPEB contributions, it has chosen to call the base component of the annual OPEB cost the Annual Required Contribution, or ARC. The ARC consists of the cost of benefits accruing in a year plus an amount calculated to amortize any unfunded actuarial accrued liability over a period of not more than 30 years.

The funded status of the plan is a ratio of the plan's assets (if any) to the actuarial accrued liability on the valuation date. The plan is also required to disclose the cumulative difference between the ARC and the employer's actual contribution to the plan. This amount is known as the Net OPEB Obligation (NOO). Each year, the NOO accumulates with interest, plus the difference between the ARC and actual contributions for the year, plus some technical adjustments. **For most plans the NOO is set to zero as of the effective date of the GASB OPEB standard. It is the NOO, and not the actuarial accrued liability, that will be disclosed on the employer's Statement of Net Assets.**

## **OPEB SPECIFIC ASSUMPTIONS**

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In any long-term actuarial valuation (such as for pensions and OPEB) certain demographic, economic and behavioral assumptions must be made concerning the population, investment discount rates, and the benefits provided. These actuarial assumptions form the basis for the actuarial model which is used to project the future population, benefits to be provided, and contributions to be collected. The investment return rate assumption is used to discount the future benefits to a present value on the valuation date. While assumptions such as future rates of retirement and mortality are similar for both OPEB and pension plans, there are some additional assumptions required when projecting benefits for a health care plan.

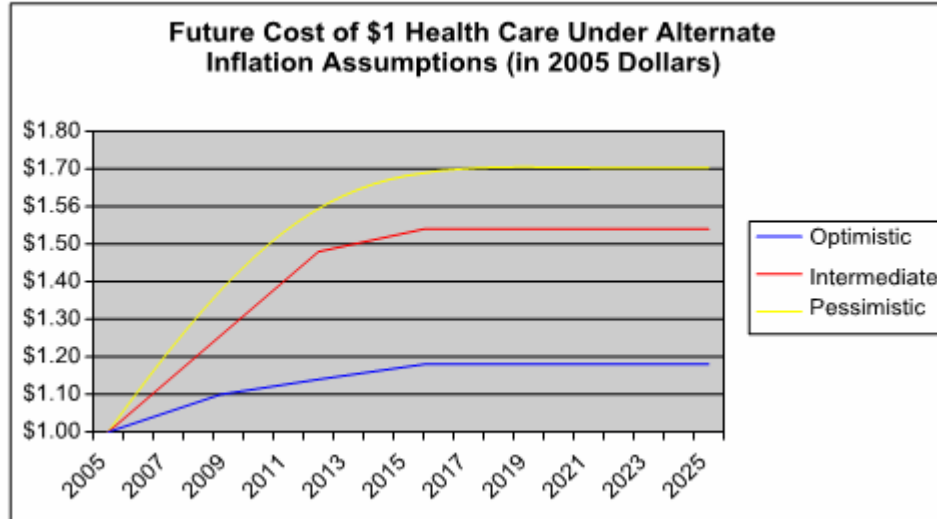
The cost of providing medical services has been increasing more rapidly than prices in general for many years. During the period from 1955 to 2005 general inflation averaged 4.0%, while health expenditures increased by an average of about 10% per year. If this trend is projected to continue for years to come, it implies that years from now virtually all our expenditures will be for health care. The seemingly more reasonable alternative is that in the not too distant future medical expense inflation will stabilize at a level at or near general inflation. It is on this basis that we project that retiree health care costs will continue to exceed general inflation in the near term, but by less each year until leveling off at an ultimate rate that is similar to general price increases.

Health care increase rates used in this valuation lie within a range of reasonable assumptions, and are described in Section G of this report. The health care increase rate assumption has a major effect on the calculation of plan liabilities. To illustrate the effect of differing future medical inflation rates, the following chart projects the growth of \$1 of health care benefit under three sets of assumptions.

In this illustration, each set of assumptions trends smoothly to an assumed long term rate of inflation over the next ten years: The assumption set labeled “Pessimistic” begins at a rate of 10% in excess of general inflation, the “Intermediate” assumption begins at a rate of 7% in excess of general inflation, while the “Optimistic” assumption begins at a rate of 3% in excess of general inflation.

## OPEB SPECIFIC ASSUMPTIONS (CONCLUDED)

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The chart above shows that the cost of providing health care is expected to increase over 50% in inflation-adjusted dollars over the next 20 years, using the “Intermediate” health care increase assumption set. To put this in perspective, assuming health care increases are brought under control almost immediately, as in the “Optimistic” assumption set, implies future per capita health care costs will be expected to increase less than 20% over current levels. In addition to the per capita health care inflation, costs are expected to rise as the retiree population increases.

The selection of an investment return rate also has a major impact on the calculation of the reported GASB OPEB expense.

It is important to note that GASB Statements No. 43 and No. 45 require the selection of an interest rate assumption to be based on the expected long-term rate of return on the assets expected to pay the OPEB when due. GASB states that the return should be based on expected returns of:

- Plan assets – if the sponsor has been contributing the ARC on a regular basis;
- The employer’s general assets – where no OPEB assets have been accumulated;
- A blend of plan and employer assets – in cases where OPEB assets exist but the plan is contributing amounts less than the ARC.

## **ACTUARIAL COST METHOD**

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GASB Statement No. 45 provides some flexibility to governmental employers (and their actuaries) in the use of various actuarial cost methods. It should be noted that an actuarial cost method determines a contribution or expense by assigning portions of the present value of projected benefits to various years with the general goal of accruing the cost of benefits over the working lifetime of the employees. The choice of a particular method does not change the ultimate cost of the promised benefits.

The Projected Unit Credit, actuarial cost method has been used to calculate the GASB ARC for this valuation. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability. This is both an acceptable and reasonable cost method. The use of another actuarial cost method would produce different results.

## **OPEB PREFUNDING**

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Many employers fund retiree health care benefits using the pay-as-you-go (or cash disbursement) method. The employer's annual contribution for these benefits is equal to the actual disbursements during the year for health care benefits 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 annual amounts to a fund which will i) remain level as a percentage of active member payroll, and ii) when combined with present assets and future investment return will be sufficient to meet the financial obligations of the Plan to current and future retirees.

The ultimate determination as to the level of pre-funding will be the result of decisions made in an attempt to reconcile the often conflicting needs of benefit security for members and fiscal responsibility for the County. The GASB accounting standards noted in the previous section of the report can factor into decisions concerning the level of pre-funding.

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**SECTION B**  
VALUATION RESULTS

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**SPARTANBURG COUNTY**  
**DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTION**

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Contributions for	Development of the Annual Required Contribution	
	<u>Fiscal Year Beginning 2008</u>	
	<u>Unfunded PAYGO</u>	<u>Funding Policy</u>
Employer Normal Cost	\$2,878,037	\$1,567,851
Amortization of UAL*	<u>\$3,183,158</u>	<u>\$2,944,190</u>
Annual Required Contribution (ARC)	\$6,061,195	\$4,512,041
ARC Per Active Participant	\$4,571	\$3,403

\* Unfunded Actuarial Accrued Liabilities (UAL) were amortized over 30 years.

The ARC shown in this report has been calculated to increase at the same rate as the projected increase in active member payroll (3.00% per year). The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll over a period of 30 years. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with the GASB requirements.

**SPARTANBURG COUNTY**  
**DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY**  
**AS OF JUNE 30, 2007**

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	<u>Unfunded PAYGO</u>	<u>Funding Policy</u>
A. Present Value of Future Benefits		
i) Retirees and Beneficiaries	\$44,697,482	\$32,146,399
ii) Vested Terminated Members	\$0	\$0
iii) Active Members	<u>\$62,587,204</u>	<u>\$32,514,096</u>
Total Present Value of Future Benefits	\$107,284,686	\$64,660,495
B. Present Value of Future Normal Costs	\$33,159,133	\$15,705,647
C. Actuarial Accrued Liabilities (A.-B.)	\$74,125,553	\$48,954,848
D. Actuarial Value of Assets	\$0	\$0
E. Unfunded Actuarial Accrued Liability (C.-D.)	\$74,125,553	\$48,954,848
F. Funded Ratio (D./C.)	0.00%	0.00%

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.

## COMMENTS

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**COMMENT A:** One of the key assumptions used in any valuation of the cost of post-employment benefits is the rate of return on Plan assets. Higher assumed investment returns will result in a lower ARC. Lower returns will tend to increase the computed ARC. Under the first scenario (Unfunded PAYGO) the discount rate is based on the employer's general assets (short term bonds and cash) and the assumed rate is 4.50%. Under the pre-funded scenario, the assumed asset allocation is a mix of equities and bonds and therefore a 7.25% discount rate is assumed.

**COMMENT B:** Based on the number of plan members as of this valuation, the plan sponsor is required by GASB to perform annual actuarial valuations at least biennially. An annual actuarial valuation will re-compute the required contribution rate each year. This will permit fluctuations and trends in experience to be reflected in the contribution rate on a regular basis.

**COMMENT C:** The contribution rates shown include amortization of the unfunded actuarial accrued liability over 30 years. This is the maximum time period permitted by the Governmental Accounting Standards Board Statement No. 43 and No. 45. A shorter amortization period would result in a higher ARC.

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**SECTION C**  
SENSITIVITY ANALYSIS

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## **POSTEMPLOYMENT HEALTH INSURANCE – SENSITIVITY TESTS**

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Actuarial valuations deal with the cost of benefits to be paid in the future. The payments considered will range from one month in the future to decades from the valuation date (for a young, newly hired employee who may retire many years from now and live many years after that). In order to establish a present day cost for these future benefit obligations, the actuary bases the valuation on a number of assumptions about future occurrences. The occurrences that must be considered include employee turnover, pay increases, disablement, retirements, deaths and investment income on anticipated plan assets.

When the benefits being valued are health care benefits, a key factor is the future cost of the medical benefits being promised. This is projected using the current cost of the System's health care benefits and assumed future health care cost increases. The final cost of providing retiree health care benefits will depend upon how the charges for health care services actually increase in the future.

In order to demonstrate how the cost of these benefits can vary depending upon future health care cost increases, we have performed additional valuations based upon alternative health care cost increase assumptions. The schedule on page C-2 compares (i) the computed cost of the retiree health care benefits using the valuation (Intermediate) assumptions to (ii) results of alternate valuations. One of the alternate valuations is based upon a pessimistic health care cost increase assumption. The other is based upon a more optimistic health care cost increase assumption. The schedule on page C-3 exhibits the health care cost increase assumptions used in each of the valuations.

## SPARTANBURG COUNTY SENSITIVITY ANALYSIS

The selection of future health care cost increases is one of the key assumptions in determining plan liabilities. If the health care cost trend rates upon which the calculation of the Annual Required Contribution is based were changed to either the pessimistic or optimistic trends noted on page C-3, the annual contribution for the combined groups (illustrated using the entry age normal funding method) would change as follows.

Contributions for	Development of the Annual Required Contribution		
	<u>Fiscal Year Beginning 2008</u>		
	<u>Pessimistic</u>	<u>Intermediate</u>	<u>Optimistic</u>
Employer Normal Cost	\$3,993,583	\$2,878,037	\$2,096,787
Amortization of UAL*	<u>\$4,060,175</u>	<u>\$3,183,158</u>	<u>\$2,525,963</u>
Annual Required Contribution (ARC)	\$8,053,758	\$6,061,195	\$4,622,750
ARC Per Active Participant	\$6,074	\$4,571	\$3,486

\* Unfunded Actuarial Accrued Liabilities (UAL) were amortized over 30 years.

All three scenarios above based on an unfunded 4.50% discount rate

	<u>Pessimistic</u>	<u>Intermediate</u>	<u>Optimistic</u>
A. Present Value of Future Benefits			
i) Retirees and Beneficiaries	\$54,720,337	\$44,697,482	\$36,855,969
ii) Vested Terminated Members	\$0	\$0	\$0
iii) Active Members	<u>\$88,034,538</u>	<u>\$62,587,204</u>	<u>\$44,994,783</u>
Total Present Value of Future Benefits	\$142,754,875	\$107,284,686	\$81,850,752
B. Present Value of Future Normal Costs	\$48,206,412	\$33,159,133	\$23,029,153
C. Actuarial Accrued Liabilities (A.-B.)	\$94,548,463	\$74,125,553	\$58,821,599
D. Actuarial Value of Assets	\$0	\$0	\$0
E. Unfunded Actuarial Accrued Liability (C.-D.)	\$94,548,463	\$74,125,553	\$58,821,599
F. Funded Ratio (D./C.)	0.00%	0.00%	0.00%

## SPARTANBURG COUNTY SENSITIVITY ANALYSIS

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*Health care trend rates* used in the sensitivity analysis are shown below.

Year	Medical and Prescription Drugs		
	Pessimistic	Intermediate	Optimistic
2007	13.0%	10.0%	7.0%
2008	12.3	9.5	6.8
2009	11.5	9.0	6.5
2010	10.8	8.5	6.3
2011	10.0	8.0	6.0
2012	9.3	7.5	5.8
2013	8.5	7.0	5.5
2014	7.8	6.5	5.3
2015	7.0	6.0	5.0
2016	6.5	5.5	4.5
2017	6.0	5.0	4.0
2018	5.5	4.5	3.5
2019	5.5	4.5	3.5
2020	5.5	4.5	3.5
2021	5.5	4.5	3.5
2022 & Later	5.5	4.5	3.5

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**SECTION D**  
RETIREE PREMIUM RATE DEVELOPMENT

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## **RETIREE PREMIUM RATE DEVELOPMENT**

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The initial per capita costs were developed for the two classes of retirees (pre-65 and post-65). The fully-insured rates provided by the County were utilized to determine the appropriate premium rates for the pre-65 retirees. 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 pre-65 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 actives and retirees to reflect this implicit rate subsidy for the retirees.

For Medicare eligible retirees, the initial per capita costs were developed using claims experience for calendar year 2007 in conjunction with census data for retired Medicare eligible members of the retiree health care program. These claims were projected on an incurred claim basis and loaded for administrative expenses.

The costs based on the actual experience are used for both current and future retirees for all plans combined. An inherent assumption in this methodology is that the projected future retirees will have a similar distribution by plan type to the current retirees.

Age graded and sex distinct premiums are utilized by this valuation. These costs 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 costs more accurately reflect the health care utilization and cost at that age.

The monthly one-person claim costs including medical and prescription drug benefits at select ages are shown on the next page:

## **RETIREE PREMIUM RATE DEVELOPMENT**

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<b>FOR THOSE NOT ELIGIBLE FOR MEDICARE</b>		
<b>AGE</b>	<b>MALE</b>	<b>FEMALE</b>
40	\$234.82	\$367.91
50	431.65	489.08
60	708.74	681.26
64	824.94	764.64

<b>FOR THOSE ELIGIBLE FOR MEDICARE</b>		
<b>AGE</b>	<b>MALE</b>	<b>FEMALE</b>
65	\$369.30	\$340.07
75	472.91	419.70
85	527.33	462.97

Based on the guidance provided by GASB on issues related to Medicare Part D payments to State and Local Governments effective June 30, 2006, an employer should apply the measurement requirements of GASB Statement No. 45 to determine the actuarial accrued liabilities, the annual required contribution of the employer, and the annual OPEB cost without reduction for Retiree Drug Subsidy (RDS) payments. Therefore, the impact of the RDS that is part of the Medicare Prescription Drug Improvement and Modernization Act of 2003 is not reflected in this report.

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**SECTION E**  
SUMMARY OF BENEFITS

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# **SPARTANBURG COUNTY RETIREE HEALTH CARE PLAN**

## **SUMMARY OF BENEFITS AS OF JULY 1, 2007**

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### **PLAN PARTICIPANTS**

Regular full-time, elected, appointed, and some part-time employees, including law enforcement and public safety employees, of Spartanburg County who retire **before July 1, 2003** are eligible to participate in the same health care plan as active employees; however, discounted premiums are offered. Retirees may select either a standard health care plan or an enhanced health care plan for self and eligible family members.

Regular full-time, elected, appointed, and some part-time employees, including law enforcement and public safety employees, of Spartanburg County who retire **after July 1, 2003** are eligible to participate in the same health care plan offered to active full-time employees. Retirees may select either a standard health care plan or an enhanced health care plan for self and eligible family members.

If a retiree and his/her spouse are eligible for Medicare, he/she may elect coverage provided through the Medicare Supplement Plan at a flat rate of \$75 per month per participant. If a retiree's spouse is below 65 or not Medicare eligible, he/she is subject to pay the full monthly premium for the selected health care plan.

The Medicare Supplement Plan offered by Spartanburg County is self-insured and administered by a third-party administrator.

### **NORMAL RETIREMENT BENEFITS**

Employees are eligible for full retiree benefits at age 65 or with 28 years of service and reduced retiree benefits at age 55 with at least 25 years of service or at age 60 with at least five (5) years of service. Law Enforcement Officers are eligible to receive full retiree benefits after 25 years of service or at age 55 with five years of service.

Retirees who meet the criteria above will be eligible to continue health and dental coverage provided they have worked at least eight (8) continuous years with Spartanburg County.

# **SPARTANBURG COUNTY RETIREE HEALTH CARE PLAN**

## **SUMMARY OF BENEFITS AS OF JULY 1, 2007**

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### **EARLY RETIREMENT BENEFITS**

Members retiring under early retirement conditions are eligible for retiree health care benefits, provided they have worked at least eight (8) continuous years with Spartanburg County.

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

Survivors of employees who die while actively employed are eligible for 36 months of coverage as outlined by the Consolidated Omnibus Budget Reconciliation Act (COBRA).

### **DUTY AND NON-DUTY DISABLED RETIREMENT BENEFITS**

Employees who retire under a disability retirement are immediately eligible for retiree health care benefits provided they have worked at least eight (8) years of continuous service with Spartanburg County.

### **BENEFITS FOR CHILDREN OF RETIRED EMPLOYEES**

Children to age 19 or those enrolled in college full-time to age 25 are eligible to receive health care benefits. Disabled children of retirees are eligible to receive health care benefits until the retiree reaches Medicare eligibility.

Retirees pay the same health care premiums as those offered to active employees.

### **BENEFITS FOR SPOUSES OF RETIRED EMPLOYEES**

Spouses of retired employees are eligible to continue retiree health care benefits. Coverage continues to non-Medicare eligible surviving spouses of deceased retirees to age 65, after which the Medicare Supplement Plan is offered.

# **SPARTANBURG COUNTY RETIREE HEALTH CARE PLAN**

## **SUMMARY OF BENEFITS AS OF JULY 1, 2007**

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### **BENEFITS FOR SPOUSES OF RETIRED EMPLOYEES**

Spouses of retired employees are eligible to continue retiree health care benefits. Coverage continues to non-Medicare eligible surviving spouses of deceased retirees to age 65, after which the Medicare Supplement Plan is offered.

### **NON-MEDICARE AND MEDICARE– ELIGIBLE PROVISIONS**

Spartanburg County's health care coverage ceases when retiree becomes eligible for Medicare coverage. Retirees are required to enroll in Medicare once eligible. The retiree pays the full Medicare premium. A Medicare Supplement Plan is offered by Spartanburg County to retirees once they become Medicare eligible. The Medicare Supplement Plan is a self-insured plan.

### **DENTAL AND VISION COVERAGE**

A dental plan is not included in the Blue Choice health care plan; however, Spartanburg County does offer a standard dental plan for employees and retirees. The Dental Plan is a self-insured plan.

Vision coverage is part of the Blue Choice health care plan.

### **LIFE INSURANCE COVERAGE**

Not provided.

### **LONG-TERM DISABILITY INSURANCE**

Spartanburg County does not offer long-term disability insurance to retirees.

### **RETIREE OPT-OUT**

Any retiree (or retiree spouse, where applicable) who decides to opt-out of health or dental coverage will forfeit all future rights to re-enroll.

**SPARTANBURG COUNTY RETIREE HEALTH CARE PLAN**  
**SUMMARY OF BENEFITS AS OF JULY 1, 2007**

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**EMPLOYEE/RETIREE MONTHLY HEALTH CARE PREMIUMS**

Group	Medicare Supplement Plan	Blue Choice (Standard Plan)		Blue Choice (Enhanced Plan)	
		Employee Share	Total Premium	Employee Share	Total Premium
<b><u>Retired BEFORE July 1, 2003</u></b>					
Employee (10-14 years of service)		80.21	414.00	109.87	433.25
Employee (15-19 years of service)		40.10	414.00	65.09	433.25
Employee (20 + years of service)		0.00	414.00	19.18	433.25
Employee/ Children (10-14 years of service)		229.11	844.00	301.26	883.00
Employee/ Children (15-19 years of service)		177.21	844.00	241.84	833.00
Employee/ Children (20+ years of service)		103.22	844.00	157.12	833.00
Employee/ Spouse (10-14 years of service)		232.61	808.25	303.84	845.75
Employee/ Spouse (15-19 years of service)		192.50	808.25	257.91	845.75
Employee/ Spouse (20+ years of service)		101.86	808.25	154.13	845.75
Employee/Family (10-14 years of service)		368.96	1,167.25	476.85	1,221.50
Employee/Family (15-19 years of service)		328.85	1,167.25	430.92	1,221.50
Employee/Family (20+ years of service)		243.00	1,167.25	333.08	1,221.50
<b><u>Retired AFTER July 1, 2003</u></b>					
Retiree Single		45.80	414.00	65.10	433.25
Retiree/ Spouse		162.50	808.25	200.10	845.75
Retiree/Child or Children		164.00	844.00	203.00	883.00
Retiree/Family		324.50	1,167.25	378.90	1,221.50
<b><u>Medicare Eligible Retirees (BEFORE or AFTER July 1, 2003)</u></b>					
Retiree Single (over 65)	<b>75.00</b>	<b>Self-Insured</b>		<b>Self-Insured</b>	
Spouse of Retiree (over 65)	<b>75.00</b>	<b>Self-Insured</b>		<b>Self-Insured</b>	

## SPARTANBURG COUNTY RETIREE HEALTH CARE PLAN SUMMARY OF BENEFITS AS OF JULY 1, 2007

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### DENTAL MONTHLY PREMIUMS

Regular full-time, elected, appointed, and some part-time employees, including law enforcement and public safety employees, of Spartanburg County who retire **before July 1, 2003** are eligible to participate in the same dental plan as active employees, however premium rates are discounted. If a retiree elects dental coverage and is not Medicare eligible, dental coverage is free until retiree reaches age 65 or becomes Medicare eligible. Upon reaching Medicare eligibility, dental benefits are offered through the Medicare Supplement Plan at \$7.59 per month.

A Medicare eligible spouse may elect dental benefits through the Medicare Supplement Plan at \$7.59 per month. If the spouse of a retiree is not Medicare eligible, he/she is subject to pay the same monthly premium offered to an active employee at the employee/family rate of \$15.18 per month.

Regular full-time employees, including law enforcement and public safety employees, of Spartanburg County who retire **after July 1, 2003** are eligible to participate in the same dental plan as active employees. The dental plan that is offered is a standard plan. No other elections are offered. Please see chart below.

<b>Planned Administrators – Dental Plan</b>	
<b>Group</b>	<b>Monthly Premiums</b>
<b>Employee Only</b>	<i>Free</i>
<b>Employee/Family</b>	\$15.18
<b>Retiree Under 65</b>	<i>Free</i>
<b>Retiree/Spouse Over 65</b>	\$7.59 pp

\*PP =PER PERSON

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**SECTION F**  
SUMMARY OF PARTICIPANT DATA

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**SPARTANBURG COUNTY**  
**TOTAL ACTIVE MEMBERS AS OF JUNE 30, 2007**  
**BY ATTAINED AGE AND YEARS OF SERVICE**

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Attained Age	Years of Service to Valuation Date							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	
Under 20	19							19
20-24	71	1						72
25-29	100	35	1					136
30-34	73	72	27					172
35-39	75	64	58	15	2			214
40-44	62	35	34	44	18			193
45-49	42	30	19	18	22	2	2	135
50-54	44	17	33	17	17	10	6	144
55-59	34	19	18	12	7	7	5	102
60-64	18	13	9	6	8	5	2	61
65 & Over	38	22	13	2	2	1		78
<b>Totals</b>	<b>576</b>	<b>308</b>	<b>212</b>	<b>114</b>	<b>76</b>	<b>25</b>	<b>15</b>	<b>1326</b>

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

**Age:** 42.8 years  
**Service:** 8.3 years

**SPARTANBURG COUNTY**  
**TOTAL RETIRED MEMBERS AS OF JUNE 30, 2007**  
**BY ATTAINED AGE**

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<b>Attained Age</b>	<b>Number of Retirees</b>		
	<b>Male</b>	<b>Female</b>	<b>Total</b>
Under 55	25	21	46
55-59	32	13	45
60-64	25	31	56
65 & Over	70	60	130
<b>Totals</b>	<b>152</b>	<b>125</b>	<b>277</b>

The number counts above only include those retirees who have elected to receive retiree health care coverage through the Spartanburg County Retiree Health Care Plan.

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**SECTION G**

ACTUARIAL COST METHOD AND ACTUARIAL ASSUMPTIONS

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**VALUATION METHODS FOR  
SPARTANBURG COUNTY  
AS OF JUNE 30, 2007**

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*Actuarial Cost Method.* The **Projected Unit Credit Cost Method** was used in the valuation. The actuarial present value of benefits allocated to the valuation year is the Normal Cost. The actuarial present value of benefits allocated to all prior periods is the Actuarial Accrued Liability. 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 by level percent of payroll contributions. The UAAL was determined using the funding value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL amortization payment (one component of the contribution requirement), is the level percent of payroll (assumed to increase at 3%) required to fully amortize the UAAL over a 30 year period.

*Actuarial Value of System Assets.* The Actuarial Value of Assets is set equal to the reported market value of assets. The assets are allocated among the divisions based on liabilities valued at 4.50%. The assets may not be allowed for consideration as GASB assets, but are shown for illustrative purposes.

**ACTUARIAL ASSUMPTIONS FOR  
SPARTANBURG COUNTY  
AS OF JUNE 30, 2007**

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*General inflation* is assumed to be 3.00% per year.

*The rate of investment return* was 4.50% a year, compounded annually net after investment expenses.

The assumed real return is the rate of return in excess of price inflation. Considering other assumptions used in the valuation, the 4.50% nominal rate translates to a net real return of 1.50% a year.

For the Pre-funded scenario, the assumed investment return is 7.25%. This translates to a net real return of 4.25%.

*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 future contributions will be based.

<b>PORS</b>			
<b>Years of Service</b>	<b>% Increase in Salary at Sample Ages</b>		
	<b>Merit &amp; Seniority</b>	<b>Base (Economic)</b>	<b>Increase Next Year</b>
1	2.25	4.50	6.75
2	1.25	4.50	5.75
3	1.00	4.50	5.50
4	0.75	4.50	5.25
5	0.50	4.50	5.00
6	0.25	4.50	4.75
7	0.25	4.50	4.75
8	0.25	4.50	4.75
9	0.25	4.50	4.75
10	0.25	4.50	4.75
11	0.25	4.50	4.75
12	0.00	4.50	4.50
13	0.00	4.50	4.50
14	0.00	4.50	4.50
15 & Over	0.00	4.50	4.50

**ACTUARIAL ASSUMPTIONS FOR  
SPARTANBURG COUNTY  
AS OF JUNE 30, 2007**

<b>NON - PORS</b>			
<b>Years of Service</b>	<b>% Increase in Salary at Sample Ages</b>		
	<b>Merit &amp; Seniority</b>	<b>Base (Economic)</b>	<b>Increase Next Year</b>
1	1.75	4.00	5.75
2	1.00	4.00	5.00
3	0.75	4.00	4.75
4	0.50	4.00	4.50
5	0.50	4.00	4.50
6	0.50	4.00	4.50
7	0.50	4.00	4.50
8	0.50	4.00	4.50
9	0.50	4.00	4.50
10	0.25	4.00	4.25
11	0.25	4.00	4.25
12	0.25	4.00	4.25
13	0.25	4.00	4.25
14	0.25	4.00	4.25
15 & Over	0.00	4.00	4.00

The payroll growth rate for financing Unfunded Actuarial Accrued Liabilities was assumed to be 3.00% per year.

**ACTUARIAL ASSUMPTIONS FOR  
SPARTANBURG COUNTY  
AS OF JUNE 30, 2007**

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*The rates of post retirement mortality* used for individual members are in accordance with the following tables.

For normal retirees, the probabilities of dying at sample attained ages were as follows:

<b>PORS</b>				
<b>Sample Attained Ages</b>	<b>Probability of Dying Next Year (Healthy)</b>		<b>Future Life Expectancy (years)</b>	
	<b>Men</b>	<b>Women</b>	<b>Men</b>	<b>Women</b>
50	0.39%	0.14%	27.28	35.19
55	0.68	0.22	22.88	30.47
60	1.23	0.42	18.78	25.86
65	2.14	0.82	15.11	21.52
70	3.35	1.37	11.85	17.53
75	5.40	2.19	8.98	13.81
80	8.87	3.80	6.65	10.49

<b>NON - PORS</b>				
<b>Sample Attained Ages</b>	<b>Probability of Dying Next Year (Healthy)</b>		<b>Future Life Expectancy (years)</b>	
	<b>Men</b>	<b>Women</b>	<b>Men</b>	<b>Women</b>
50	0.28%	0.14%	30.01	35.19
55	0.48	0.22	25.49	30.47
60	0.86	0.42	21.20	25.86
65	1.56	0.82	17.26	21.52
70	2.55	1.37	13.77	17.53
75	4.00	2.19	10.66	13.81
80	6.67	3.80	7.97	10.49

**ACTUARIAL ASSUMPTIONS FOR  
SPARTANBURG COUNTY  
AS OF JUNE 30, 2007**

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For disabled retirees, the probabilities of dying at sample attained ages were as follows:

<b>NON - PORS</b>		
<b>Sample Attained Ages</b>	<b>Probability of Dying Next Year</b>	
	<b>Men</b>	<b>Women</b>
50	3.06%	2.31%
55	3.86	2.66
60	4.82	2.98
65	5.42	3.33
70	5.91	3.70
75	6.74	4.43
80	9.02	6.71

<b>PORS</b>		
<b>Sample Attained Ages</b>	<b>Probability of Dying Next Year</b>	
	<b>Men</b>	<b>Women</b>
50	2.30%	2.30%
55	2.89	2.89
60	3.62	3.62
65	4.07	4.07
70	4.43	4.43
75	5.05	5.05
80	6.77	6.77

These assumptions are used to measure the probabilities of each benefit payment being made after retirement.

**ACTUARIAL ASSUMPTIONS FOR  
SPARTANBURG COUNTY  
AS OF JUNE 30, 2007**

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

<b>NON – PORS</b>		
<b>Retirement Ages</b>	<b>Rates of Retirement*</b>	
	<b>Male</b>	<b>Female</b>
40	12%	14%
41	12	14
42	12	14
43	12	14
44	12	14
45	12	14
46	12	14
47	12	14
48	12	14
49	12	14
50	12	14
51	12	14
52	12	14
53	12	14
54	12	14
55	15	18
56	15	18
57	15	18
58	15	18
59	15	18
60	20	20
61	20	20
62	30	35
63	30	30
64	30	35
65	40	40
66	20	25
67	20	25
68	20	25
69	20	25
70	100	100

**ACTUARIAL ASSUMPTIONS FOR  
SPARTANBURG COUNTY  
AS OF JUNE 30, 2007**

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\*Plus the following percentage in year when first become eligible for unreduced service retirement before age 65.

Male	30%
Female	45%

We have assumed 80% of all members elect TERI coverage when they are first eligible for an unreduced retirement benefit before age 65. We assume members in the TERI are exposed to adjusted retirement rates during TERI coverage and we assume 100% terminate employment at the end of the TERI period (5 years). The retirement rate is adjusted by the following schedule based on number of years since entering TERI:

Years Since Entering TERI Program	Multiple of Unreduced Retirement Table
0.00 – 0.99	50%
1.00 – 1.99	65%
2.00 – 2.99	80%
3.00 – 3.99	90%
4.00 – 4.99	100%
5.00	All members assumed to retire immediately

<b>PORS</b>		
<b>Retirement Ages</b>	<b>Rates of Retirement</b>	
	<b>Male</b>	<b>Female</b>
45	20%	20%
46	20	20
47	20	20
48	20	20
49	20	20
50	20	20
51	20	20
52	20	20
53	20	20
54	20	20
55	14	14
56	14	14
57	14	14
58	14	14
59	14	14
60	15	15
61	27	27
62	40	40
<i>Spartanburg County Retiree Health Care Plan</i>		
63	30	30
64	25	25
65	100	100

**ACTUARIAL ASSUMPTIONS FOR  
SPARTANBURG COUNTY  
AS OF JUNE 30, 2007**

*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.

<b>PORS</b>											
PROBABILITY OF DECREMENT DUE TO WITHDRAWAL											
Years of Service											
Age	0	1	2	3	4	5	6	7	8	9	10+
25	0.2494	0.1816	0.1342	0.1047	0.0885	0.0780	0.0715	0.0640	0.0545	0.0524	0.0618
30	0.2478	0.1822	0.1376	0.1107	0.0959	0.0876	0.0810	0.0732	0.0633	0.0545	0.0481
35	0.2450	0.1795	0.1359	0.1104	0.0967	0.0899	0.0837	0.0763	0.0665	0.0539	0.0381
40	0.2398	0.1739	0.1304	0.1055	0.0927	0.0868	0.0814	0.0747	0.0653	0.0510	0.0305
45	0.2312	0.1649	0.1212	0.0964	0.0845	0.0783	0.0783	0.0681	0.0595	0.0458	0.0256
50	0.2193	0.1532	0.1090	0.0839	0.0730	0.0646	0.0610	0.0564	0.0490	0.0382	0.0236
55	0.2050	0.1393	0.0944	0.0684	0.0587	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
60	0.1871	0.1228	0.0773	0.0503	0.0419	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

<b>NON – PORS</b>											
PROBABILITY OF DECREMENT OF MALE EMPLOYEES DUE TO WITHDRAWAL											
Years of Service											
Age	0	1	2	3	4	5	6	7	8	9	10+
25	0.3288	0.2466	0.1902	0.1554	0.1345	0.1166	0.0963	0.0783	0.0650	0.0595	0.662
30	0.2939	0.2211	0.1726	0.1425	0.1236	0.1089	0.0951	0.0821	0.0704	0.0603	0.0530
35	0.2678	0.1997	0.1553	0.1285	0.1122	0.1010	0.0916	0.0822	0.0716	0.0586	0.0424
40	0.2456	0.1804	0.1384	0.1140	0.1002	0.0922	0.0861	0.0791	0.0695	0.0549	0.0335
45	0.2257	0.1636	0.1233	0.1003	0.0882	0.0825	0.0781	0.0727	0.0639	0.0493	0.0266
50	0.2082	0.1501	0.1115	0.0891	0.0774	0.0717	0.0675	0.0626	0.0547	0.0419	0.0224
55	0.1942	0.1410	0.1041	0.0814	0.0691	0.0600	0.0543	0.0488	0.0419	0.0328	0.0212
60	0.1827	0.1351	0.1002	0.0770	0.0632	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

**ACTUARIAL ASSUMPTIONS FOR  
SPARTANBURG COUNTY  
AS OF JUNE 30, 2007 (CONTINUED)**

<b>NON – PORS</b>											
<b>PROBABILITY OF DECREMENT OF FEMALE EMPLOYEES DUE TO WITHDRAWAL</b>											
<b>Years of Service</b>											
<b>Age</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10+</b>
25	0.2981	0.2459	0.2060	0.1772	0.1560	0.1385	0.1248	0.1159	0.1094	0.1030	0.0940
30	0.2710	0.2236	0.1864	0.1591	0.1395	0.1253	0.1145	0.1059	0.0970	0.0853	0.0688
35	0.2506	0.2015	0.1657	0.1410	0.1244	0.1130	0.1042	0.0958	0.0857	0.0712	0.0505
40	0.2329	0.1803	0.1451	0.1233	0.1101	0.1010	0.0935	0.0854	0.0748	0.0592	0.0367
45	0.2172	0.1622	0.1275	0.1080	0.0972	0.0894	0.0825	0.0746	0.0644	0.0493	0.0276
50	0.2041	0.1493	0.1151	0.0966	0.0864	0.0787	0.0715	0.0637	0.0543	0.0414	0.0234
55	0.1946	0.1429	0.1091	0.0895	0.0778	0.0688	0.0605	0.0526	0.0445	0.0353	0.0240
60	0.1873	0.1412	0.1079	0.0855	0.0701	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

*Rates of disability* among active members.

<b>NON – PORS</b>		
<b>DISABILITY</b>		
<b>Sample Ages</b>	<b>% Becoming Disabled within Next Year</b>	
	<b>Male</b>	<b>Female</b>
20	0.06	0.05
25	0.06	0.05
30	0.12	0.07
35	0.17	0.15
40	0.29	0.19
45	0.40	0.27
50	0.58	0.46
55	0.92	0.74
60	1.15	1.12

**ACTUARIAL ASSUMPTIONS FOR  
SPARTANBURG COUNTY  
AS OF JUNE 30, 2007 (CONTINUED)**

<b>PORS</b>	
<b>DISABILITY</b>	
<b>Sample Ages</b>	<b>% Becoming Disabled within Next Year</b>
20	0.12%
25	0.14
30	0.18
35	0.35
40	0.46
45	0.69
50	0.86

*Health cost increases* for active members are displayed in the following table:

<b>Year</b>	<b>Pre &amp; Post Commencement Health Care Trend Inflation Rates</b>
	<b>Medical and Drug</b>
2006	10.0%
2007	9.5
2008	9.0
2009	8.5
2010	8.0
2011	7.5
2012	7.0
2013	6.5
2014	6.0
2015	5.5
2016	5.0
2017	4.5
2018	4.5
2019	4.5
2020	4.5
2021	4.5

**MISCELLANEOUS AND TECHNICAL ASSUMPTIONS FOR  
SPARTANBURG COUNTY  
AS OF JUNE 30, 2007**

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<b>Administrative Expenses</b>	Expected claim costs for post 65 retirees include a load for administrative expenses.
<b>Decrement Operation</b>	Disability does not operate during normal retirement eligibility.
<b>Decrement Timing</b>	Decrements of all types are assumed to occur mid-year.
<b>Eligibility Testing</b>	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.
<b>Incidence of Contributions</b>	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.
<b>Medicare Coverage</b>	Assumed to be available for all covered employees on attainment of age 65. Twenty-five percent of disabled retirees were assumed to be eligible for Medicare coverage.
<b>Election Percentage</b>	It was assumed that 41% of retirees who leave employment prior to age 65 elect coverage, and 33% of retirees leaving employment after reaching age 65 elect coverage. Of those who elect coverage, 50% of males and 25% of females are assumed to elect 2 person coverage.

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**APPENDIX**

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## GLOSSARY

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**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 (CONCLUDED)**

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**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 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.

**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 Post-Employment Employee Benefits (OPEB).** OPEB are post-employment benefits other than pensions. OPEB generally takes the form of health insurance and dental, vision, prescription drugs or other healthcare 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.

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

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