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December 23, 2013

Ms. Donna Mitchell  
Controller/Treasurer  
City of Dover  
5 E. Reed Street  
Weyandt Hall, Suite 300  
Dover, DE 19901

Re: Interim Valuation Reports for Fiscal Year Ending June 30, 2014

Dear Donna:

Enclosed are the results of the interim actuarial valuations for the General Employee Pension Plan, Police Pension Plan and the Other Postemployment Benefit (OPEB) Plan for the fiscal year ending June 30, 2014 for the City of Dover, Delaware. These results are based on our understanding of the funding policy of the City and provide the necessary financial statement information in accordance with GASB 27 and 45.

This analysis does not reflect the new accounting standards for pension plans, GASB Statements 67 and 68. These new standards will replace GASB Statements 25 and 27. At this point, there is no change to GASB 43 and 45 for retiree medical plans. GASB 67 is effective for fiscal years beginning after June 15, 2013, which is the fiscal year ending June 30, 2014 for the City of Dover. In the coming months, we will provide information on the new disclosures.

The results for each of the plans are based on projecting the liabilities from the July 1, 2012 actuarial valuations for one year using a roll-forward method, assuming no liability gains or losses. The normal cost rate was assumed to remain unchanged at 4.60% for the General Employee Pension Plan.

In addition, for purposes of the GASB 45 accounting liabilities, the liabilities reflect a change in the discount rate from 5.25% to 5.60% to reflect the fact that the fiscal year ending June 30, 2014 is the sixth year of the City's 10-year phase-in to full funding the Annual Required Contribution.

Actual asset experience during the year ending June 30, 2013 was reflected and for the General Employee Pension Plan, the actuarial value of assets was developed in accordance with the asset valuation method. For purposes of allocating assets among

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the different internal funds of the City (General Fund, Water Fund, and Electric Fund), we have modified the method used for the General Employee Pension Plan to be consistent with the method utilized for the OPEB plan. For the OPEB plan, assets by Fund were developed based on contributions, disbursements and investment income attributed to each internal fund during the fiscal year ending June 30, 2013. This same approach was used for the General Employee Pension Plan due to the large disparity of contributions made by each Fund. Previously, assets in the General Employee Pension Plan, was allocated such that the funded ratio for each of the funds was set to the funded ratio for the plan in total.

The attached exhibits display the results for each of the plans.

This analysis is based on the census data, plan provisions and actuarial assumptions and methods used in the July 1, 2012 Actuarial Valuations, except as noted above, dated July 12, 2013 for the OPEB plan and January 10, 2013 for the pension plans. Please refer to these reports for more information.

Future actuarial measurements may differ significantly from the current measurements presented in this analysis due to actual plan experience deviating from the actuarial assumptions, and changes in plan provisions, actuarial assumptions, and applicable law. An assessment of the potential range and cost effect of such differences is beyond the scope of this analysis.

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- The City may provide a copy of Milliman's work, in its entirety, to the City's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the City.


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The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

Ms. Donna Mitchell  
December 23, 2013  
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I am a member of the American Academy of Actuaries and meet its qualification standards to render this actuarial opinion.

Sincerely,



Scott Porter, FSA

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CC: Beth Lehman – SB Company, LLC 200 International Circle, Suite 5500 Hunt Valley, Maryland 21030

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**CITY OF DOVER, DELAWARE**

**Interim Actuarial Valuation**

**FISCAL YEAR ENDING JUNE 30, 2014**

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**CITY OF DOVER, DELAWARE**

**General Employee Pension Plan  
Interim Actuarial Valuation**

**FISCAL YEAR ENDING JUNE 30, 2014**

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**CITY OF DOVER, DELAWARE**

**General Employee Pension Plan Actuarial Valuation**

**Market Value of Assets as of June 30, 2013**

|                    |  |                     |
|--------------------|--|---------------------|
| <b>Assets</b>      |  |                     |
| Operating Account  |  | (\$9)               |
| Cash equivalents   |  | \$7,025,216         |
| Mutual Funds       |  | <u>\$23,237,646</u> |
| Total              |  | \$30,262,853        |
| <b>Liabilities</b> |  |                     |
| Accounts payable   |  | -                   |
| Total              |  | <u>-</u>            |
| <b>Net Assets</b>  |  | \$30,262,853        |

**Allocation of Market Value by Fund as of June 30, 2013**

|                       |                     |
|-----------------------|---------------------|
| General Fund          | \$12,893,372        |
| Water/Wastewater Fund | \$2,213,486         |
| Electric Fund         | <u>\$15,155,995</u> |
| Total Pension Assets  | \$30,262,853        |

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CITY OF DOVER, DELAWARE

General Employee Pension Plan Actuarial Valuation

Change in Market Value of Assets

|  |                  |                    |
|--|------------------|--------------------|
| Market Value of Assets as of June 30, 2012 |                  | \$22,048,586       |
| Income                                     |                  |                    |
| City's contributions                       | 9,788,571        |                    |
| Employee contributions                     | 233,097          |                    |
| Net Investment and other income            | <u>1,751,243</u> |                    |
| Total                                      |                  | 11,772,911         |
| Disbursements                              |                  |                    |
| Benefit payments and contribution refunds  | (3,537,364)      |                    |
| Administrative Expenses                    | <u>(21,280)</u>  |                    |
| Total                                      |                  | <u>(3,558,644)</u> |
| Net increase/ (decrease)                   |                  | 8,214,267          |
| Market Value of Assets as of June 30, 2013 |                  | \$30,262,853       |
| Estimated rate of return                   |                  | 7.60%              |

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**CITY OF DOVER, DELAWARE**

**General Employee Pension Plan Actuarial Valuation**

**Development of Actuarial Value of Assets**

Unexpected Returns

| <u>Year Ending</u>                            | <u>Expected Return</u> | <u>Actual Return</u> | <u>Unexpected Return</u> | <u>Percentage Weight</u> | <u>Amount Deferred</u> |
|---|------------------------|----------------------|--------------------------|--------------------------|------------------------|
| 2013  | \$ 1,613,028           | \$ 1,751,243         | \$ 138,215               | 80%                      | \$ 110,572             |
| 2012  | 1,542,187              | (4,991)              | (1,547,178)              | 60%                      | (928,307)              |
| 2011  | 1,257,835              | 3,776,674            | 2,518,839                | 40%                      | 1,007,536              |
| 2010  | 1,196,882              | 1,963,709            | 766,827                  | 20%                      | 153,365                |
| <b>Total</b>                                  | <b>\$ 5,609,932</b>    | <b>\$ 7,486,635</b>  | <b>\$ 1,876,703</b>      |                          | <b>\$ 343,166</b>      |
| Market Value of Assets as of June 30, 2013    |                        |                      |                          |                          | 30,262,853             |
| Actuarial Value of Assets as of June 30, 2013 |                        |                      |                          |                          | 29,919,687             |
| Ratio of Actuarial Value to Market Value      |                        |                      |                          |                          | 98.9%                  |
| Estimated rate of return                      |                        |                      |                          |                          | 5.52%                  |

**Estimated Historical Rates of Return**

| <u>Fiscal Year Ending</u> | <u>Market Value</u> | <u>Actuarial Value</u> |
|---------------------------|---------------------|------------------------|
| June 30, 2013             | 7.60%               | 5.52%                  |
| June 30, 2012             | -0.02%              | 3.07%                  |
| June 30, 2011             | 21.02%              | 4.86%                  |
| June 30, 2010             | 12.31%              | 2.62%                  |
| June 30, 2009             | -11.85%             | 2.46%                  |
| <b>5 - Year Average</b>   | <b>5.21%</b>        | <b>3.70%</b>           |

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**CITY OF DOVER, DELAWARE**

**General Employee Pension Plan Actuarial Valuation**

**Annual Required Contribution For Fiscal Year Ending June 30, 2014**

|                              | (110)<br>General<br><u>Fund</u> | (412)<br>Water<br><u>Fund</u> | (480)<br>Electric<br><u>Fund</u> | <u>Total</u>      |
|------------------------------|---------------------------------|-------------------------------|----------------------------------|-------------------|
| Actuarial Accrued Liability  | \$30,022,000                    | \$4,566,000                   | \$21,180,000                     | \$55,768,000      |
| Actuarial Value of Assets    | <u>12,747,167</u>               | <u>2,188,386</u>              | <u>14,984,134</u>                | <u>29,919,687</u> |
| Unfunded Liability           | 17,274,833                      | 2,377,614                     | 6,195,866                        | 25,848,313        |
| <br>                         |                                 |                               |                                  |                   |
| Normal Cost                  | \$184,385                       | \$28,266                      | \$79,207                         | \$291,858         |
| Amortization Payment         | 1,459,574                       | 200,888                       | 523,497                          | 2,183,959         |
| Interest at 7.00%            | <u>102,170</u>                  | <u>14,062</u>                 | <u>36,645</u>                    | <u>152,877</u>    |
| Annual Required Contribution | 1,746,129                       | 243,216                       | 639,349                          | 2,628,694         |

**Annual Pension Cost For Fiscal Year Ending June 30, 2014**

|                                    |               |               |                |                |
|------------------------------------|---------------|---------------|----------------|----------------|
| Net Pension Obligation/(Asset) BOY | (\$191,945)   | (\$479,537)   | (\$6,242,967)  | (\$6,914,449)  |
| <br>                               |               |               |                |                |
| Annual Required Contribution       | 1,746,129     | 243,216       | 639,349        | 2,628,694      |
| Interest on Net Pension Obligation | (13,436)      | (33,568)      | (437,008)      | (484,012)      |
| Adjustment to ARC                  | <u>17,353</u> | <u>43,353</u> | <u>564,400</u> | <u>625,106</u> |
| Annual Pension Cost                | 1,750,046     | 253,001       | 766,741        | 2,769,788      |

The ARC is based on a discount rate of 7% and a 22-year amortization (closed) of the unfunded liability.

**CITY OF DOVER, DELAWARE**

**General Employee Pension Plan Actuarial Valuation**

**Estimated Net Pension Obligation as of June 30, 2014**

|   | (110)<br>General<br><u>Fund</u> | (412)<br>Water<br><u>Fund</u> | (480)<br>Electric<br><u>Fund</u> | <u>Total</u>     |
|---|---------------------------------|-------------------------------|----------------------------------|------------------|
| Net Pension Obligation BOY              | (\$191,945)                     | (\$479,537)                   | (\$6,242,967)                    | (\$6,914,449)    |
| Annual Pension Cost                     | 1,750,046                       | 253,001                       | 766,741                          | 2,769,788        |
| Estimated Contributions                 | <u>1,746,129</u>                | <u>243,216</u>                | <u>639,349</u>                   | <u>2,628,694</u> |
| Expense Difference                      | 3,917                           | 9,785                         | 127,392                          | 141,094          |
| Estimated Net Pension<br>Obligation EOY | (188,028)                       | (469,752)                     | (6,115,575)                      | (6,773,355)      |

The estimated Net Pension Obligation as of June 30, 2014 assumes contributions will equal the ARC for the year.

**Final Net Pension Obligation as of June 30, 2013**

|                            | (110)<br>General<br><u>Fund</u> | (412)<br>Water<br><u>Fund</u> | (480)<br>Electric<br><u>Fund</u> | <u>Total</u>     |
|----------------------------|---------------------------------|-------------------------------|----------------------------------|------------------|
| Net Pension Obligation BOY | (\$64,743)                      | (\$201,122)                   | (\$84,534)                       | (\$350,399)      |
| Annual Pension Cost        | 1,753,342                       | 271,616                       | 1,199,563                        | 3,224,521        |
| Actual Contributions       | <u>1,880,544</u>                | <u>550,031</u>                | <u>7,357,996</u>                 | <u>9,788,571</u> |
| Expense Difference         | (127,202)                       | (278,415)                     | (6,158,433)                      | (6,564,050)      |
| Net Pension Obligation EOY | (191,945)                       | (479,537)                     | (6,242,967)                      | (6,914,449)      |

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**CITY OF DOVER, DELAWARE**

**General Employee Pension Plan Actuarial Valuation**

**Schedule of Funding Progress**

| <u>Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability</u> | <u>Unfunded Accrued Liability</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAL as a % of Covered Payroll</u> |
|-----------------------|----------------------------------|------------------------------------|-----------------------------------|---------------------|------------------------|--------------------------------------|
| 7/1/2012              | \$22,177,831                     | \$55,006,282                       | \$32,828,451                      | 40.3%               | \$7,076,322            | 463.9%                               |
| 7/1/2010              | 19,963,426                       | 52,462,693                         | 32,499,267                        | 38.1%               | 8,256,751              | 393.6%                               |
| 7/1/2009              | 19,880,033                       | 45,525,384                         | 25,645,351                        | 43.7%               | 8,786,981              | 291.9%                               |
| 7/1/2008              | 19,381,391                       | 43,800,212                         | 24,418,821                        | 44.2%               | 8,716,361              | 280.1%                               |
| 7/1/2007              | 17,616,172                       | 42,335,142                         | 24,718,970                        | 41.6%               | 8,006,103              | 308.8%                               |
| 7/1/2006              | 15,712,605                       | 41,103,526                         | 25,390,921                        | 38.2%               | 7,612,121              | 333.6%                               |

**Schedule of Employer Contributions**

| <u>Fiscal Year End</u> | <u>Annual Pension Cost</u> | <u>Percentage Contributed</u> | <u>NPO (Asset) EOY</u> |
|------------------------|----------------------------|-------------------------------|------------------------|
| 6/30/2014 *            | \$2,769,788                | 94.9%                         | (\$6,773,355)          |
| 6/30/2013              | 3,224,521                  | 303.6%                        | (6,914,449)            |
| 6/30/2012              | 3,135,924                  | 100.2%                        | (350,399)              |

| <u>Fiscal Year End</u> | <u>Annual Required Contribution</u> | <u>Percentage Contributed</u> |
|------------------------|-------------------------------------|-------------------------------|
| 6/30/2014 *            | \$2,628,694                         | 100.0%                        |
| 6/30/2013              | 3,217,964                           | 304.2%                        |
| 6/30/2012              | 3,130,022                           | 100.4%                        |
| 6/30/2011              | 3,149,493                           | 0.0%                          |
| 6/30/2010              | 2,564,767                           | 88.5%                         |
| 6/30/2009              | 2,356,529                           | 105.7%                        |

\* Contributions for fiscal year 2014 are estimated to equal the ARC for the year.

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