

**CITY OF DOVER, DELAWARE**

**Other Postemployment Benefit  
GASB 45 Actuarial Valuation**

**AS OF JULY 1, 2014 FOR  
FISCAL YEAR ENDING JUNE 30, 2015**



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September 9, 2015

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

Dear Ms. Mitchell:

This report presents the results of the Other Postemployment Benefit (OPEB) GASB 45 actuarial valuation for the City of Dover, Delaware for the fiscal year ending June 30, 2015. The Governmental Accounting Standards Board issued Statement No. 45 to require governmental entities to begin accruing costs for other postemployment benefits (excluding pension benefits) while members are in active employment. The standard first applied to the City for the fiscal year ending June 30, 2009.

### Purpose

The main purposes of this report are:

- to determine the benefit programs covered under GASB 45;
- to estimate the overall liability attributable to these programs as of July 1, 2014, based on the development of key actuarial assumptions;
- to estimate the funding policy contribution for the fiscal year ending June 30, 2015; and
- to provide the annual expense and balance sheet items for fiscal year ending June 30, 2015 according to GASB 45.

Actuarial computations presented in this report are for purposes of fulfilling financial accounting requirements under GASB Statement No. 45. The calculations in the enclosed report have been made on a basis consistent with our understanding of this Statement. Determinations for purposes other than meeting these requirements or those stated above may not be appropriate and be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

Milliman's work product was prepared solely for the City of Dover, Delaware for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

Milliman's work is prepared solely for the internal business use of the City. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exceptions:

- 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.
- The City may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

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.

#### Data Reliance

In performing this analysis, we relied on data and other information (both written and oral), such as the plan provisions, provided by City of Dover, Delaware. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

We also relied on the plan provision information as provided by the City.

#### Variability of Results

These liability and cost figures are subject to variability due to uncertainty in a number of the underlying assumptions. Two of the major sources of variability are the starting

per capita costs and the healthcare trend rate. Since liabilities and annual expense values presented in this report are based on a single set of assumptions, all of the results should be considered to be estimates.

An excise tax for high cost health coverage or “Cadillac” health plans was included in the Affordable Care Act (ACA) passed into law in March 2010. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. If, between 2010 and 2018, the cost of health care insurance rises more than 55%, the threshold for the excise tax will be adjusted.

Also included in ACA are various fees (including, but not limited to, the Patient-Centered Outcomes Research Institute fee, Transitional Reinsurance Program fee, and the Health Insurer fee) associated with the initiation of health exchanges in 2014.

We believe that the current provisions of ACA should be reflected in the projection of benefits and therefore, we do include the value of the excise tax and ACA fees which apply to the plan(s). We assume that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the excise tax.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to actual plan experience deviating from the actuarial assumptions, the natural operation of the plan’s actuarial cost method (such as the expiration of an amortization period or additional cost or contribution requirements based on the plan’s funded status), and changes in plan provisions, actuarial assumptions, and applicable law.

### Certification

We hereby certify that, to the best of our knowledge, this report is complete and accurate and all costs and liabilities were determined in conformance with generally accepted actuarial principles and practices based on our understanding of the benefit programs provided by the City and the requirements of GASB 45, which are consistent with the principles prescribed by the Actuarial Standards Board, the Code of Professional Conduct, and the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States of the American Academy of Actuaries. We further certify that all costs and liabilities have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the Plans where available and reasonable expectations); and which, in combination, offer our best estimate of anticipated experience affecting the Plan.

GASB 45 provides guidance to employers in selecting the discount rate. The discount rate should be the estimated long-term investment yield on the investments that are expected to be used to finance the benefits. If there are no plan assets, assets of the employer should be used to derive the discount rate. For this valuation, a discount rate


of 6.5% has been used, which reflects the fact that the City is fully funding the Annual Required Contribution.

GASB 45 allows employers to select from six actuarial cost methods in determining the Annual Required Contribution. The Projected Unit Credit Cost Method is used in this valuation.

The valuation date is the date that all participant and other pertinent information is collected and liabilities are measured. This date may not be more than 24 months prior to the beginning of the fiscal year. The valuation date for this valuation is July 1, 2014. Furthermore, GASB 45 requires actuarial valuations to occur at least biennially. Therefore, the results of this valuation may be used for the 2015 fiscal year and be the basis for the 2016 fiscal year, unless significant changes occur that would affect the results of this valuation. Assuming no significant changes, the next valuation would be for the 2017 fiscal year.

We are members of the American Academy of Actuaries and meet its qualification standards to render this actuarial opinion.

Respectfully submitted,

By: 

Scott F. Porter, F.S.A.  
Member American Academy of Actuaries

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# CITY OF DOVER, DELAWARE

## Other Postemployment Benefit Valuation

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# CITY OF DOVER, DELAWARE

## Other Postemployment Benefit Valuation

### SECTION I – SUMMARY OF RESULTS

#### Executive Summary

For the 2014 and 2015 fiscal years, the City of Dover has at least funded the full funding Annual Required Contribution (ARC). Previously, the City was phasing into full funding over a 10-year period. Due to this change, the phase-in has been eliminated in determining the interest rate assumption used for the liabilities and costs under GASB 45. The following chart compares the actual contribution made to the full funding contribution for the last four fiscal years plus the current fiscal year.

OPEB Contribution Comparison			
Fiscal Year End	Actual City Contributions	Full Funding Contribution	Percent of Full Contribution Paid
2015	\$5,305	\$3,810	139.2%
2014	5,086	4,905	103.7
2013	3,941	4,816	81.8
2012	5,645	6,082	92.8
2011	3,314	5,884	56.3

For the fiscal year ending June 30, 2015, the full funding contribution is \$3.8 million, which is significantly lower than the full funding contribution of \$4.9 million for the fiscal year ending June 30, 2014. The change in the full funding contribution is primarily due to:

- There was a significant decrease in the post-65 premium charged in the State Health Benefit Plan from July 1, 2012 to July 1, 2014. Along with other changes to the premiums and the healthcare trend, this resulted in a decrease in the actuarial liability of approximately \$11.6 million.
- DOE employees who retire on or after June 1, 2013 will pay 15% of the total premium for the plan elected. This change decreased the actuarial liability and full funding contribution by approximately \$0.3 million and \$0.05 million, respectively. Changes impacting other employees were also negotiated, but they will impact costs in future years since they apply to employees hired after the valuation date.
- The investment return assumption was decreased from 7% to 6.5% increasing the actuarial liability and full funding contribution by approximately \$3.5 million and \$0.3 million, respectively.

## CITY OF DOVER, DELAWARE

### Other Postemployment Benefit Valuation

#### SECTION I – SUMMARY OF RESULTS

(Continued)

The funding policy contribution for fiscal year 2015 is equal to the ARC. The ARC comprises the Normal Cost and an amortization of the Unfunded Accrued Liability plus an interest adjustment. The Unfunded Accrued Liability is \$32.5 million based on a 6.5% discount rate. The amortization payment is based on a 30-year (open) amortization of the unfunded liability. The amortization payment is \$2.3 million, the normal cost is \$1.3 million and the interest adjustment is \$0.2 million.

The Annual Other Postemployment Benefit (OPEB) Cost for the fiscal year ending June 30, 2015 is equal to the ARC plus interest less an amortization on the Net OPEB Obligation as of the beginning of the year. The amortization component is known as the Adjustment to the ARC. The Annual OPEB Cost for the fiscal year ending June 30, 2015 is \$3.7 million.

The Net OPEB Obligation is the accumulated difference between the Annual OPEB Cost each year and the actual payments made by the City to pay benefits or to fund the plan. The Net OPEB Obligation as of June 30, 2014 is \$13.1 million and decreases to \$11.4 million as of June 30, 2015 based on actual contributions of \$5.3 million made during the fiscal year.

#### Overview of GASB 43 and 45

GASB 43 requires other postemployment **plans** to disclose information about asset and liability levels and show historical contribution information. These requirements are simplified in situations where no separate formal trust is established to prefund these benefits. A formal trust exists if:

- Employer contributions to the plan are irrevocable,
- Plan assets are dedicated to providing benefits to their retirees and beneficiaries, and
- Plan assets are protected from creditors of the employer and the plan administrator.

The City of Dover has established an IRC Section 115 trust and is funding the plan according to its funding policy.

GASB 45 requires **employers** to perform periodic actuarial valuations to determine annual accounting costs, and to keep a running tally of the extent to which these amounts are over or under funded. This Other Postemployment Benefit (OPEB) valuation represents the adoption of GASB 45 for the fiscal year ending June 30, 2009 by the City.



## CITY OF DOVER, DELAWARE

### Other Postemployment Benefit Valuation

#### **SECTION I – SUMMARY OF RESULTS**

(Continued)

GASB 43 and 45 apply to just about any benefit that is provided after retirement except for pension benefits: medical insurance, pharmacy, dental, vision, and hearing benefits plus life insurance and long-term care insurance. The benefits provided by the City to retirees include medical and pharmacy benefits plus monthly supplements for Medicare Part B for certain eligible retirees. The philosophy driving the accounting standard is that the postemployment benefits are part of the compensation that is paid to employees in return for their services, and the cost of these benefits should be recognized while the employees are providing those services, rather than after they have retired. This philosophy has already been applied for years to defined benefit pensions; GASB 43 and 45 extend the same thinking to all other postemployment benefits.

The Annual OPEB Cost (AOC) represents the accrued cost for postemployment benefits under GASB 45. Prior to GASB 45, the City expensed the actual benefits paid during a year. The cumulative difference between the Annual OPEB Cost (new method) and the benefits paid during a year (old method) will result in a Net OPEB Obligation to be included on the balance sheet of the City. The Annual OPEB Cost is equal to the Annual Required Contribution (ARC) less adjustments if a Net OPEB Obligation exists. The ARC is equal to the normal cost plus an amortization of the unfunded liability. To the extent that the ARC is funded in a trust, the Net OPEB Obligation will be minimized.

#### Funding Policy

The City of Dover has contributed in excess of the full funding ARC since the 2014 fiscal year. As such, the phase-in has been eliminated.

#### Actuarial Cost and Amortization Methods

For determining the ARC, a plan sponsor has to choose an actuarial cost method and an amortization method. An actuarial cost method determines how to allocate the liability over an employee's career and an amortization method determines how the liability is recognized in determining the ARC. The City has decided to use the Projected Unit Credit Cost Method with the unfunded liability amortized over a 30-year period. The period is reset each year.

# CITY OF DOVER, DELAWARE

## Other Postemployment Benefit Valuation

### SECTION I – SUMMARY OF RESULTS

(Continued)

#### Valuation Date

The valuation date is the date that all participant and other pertinent information is collected and liabilities are measured. This date may not be more than 24 months prior to the beginning of the fiscal year. The valuation date for this valuation is July 1, 2014 which is at the beginning of the 2015 fiscal year. This is consistent with the prior valuation completed as of July 1, 2012 for the 2013 and 2014 fiscal years. The results of this valuation may be used for the 2015 fiscal year and be the basis for the 2016 fiscal year, unless significant changes occur that would affect the results of this valuation. Assuming no significant changes, the next valuation would be for the 2017 fiscal year, based on a July 1, 2016 valuation date.

#### Valuation Process

The process of determining the liability for retiree medical benefits is based on many assumptions about future events. The key actuarial assumptions are:

**Demographic Assumptions:** When an employee is assumed to be eligible and commence OPEB benefits and what is the life expectancy of receiving those benefits?

- **Turnover and retirement rates:** For purposes of this valuation, termination rates are based on the rates utilized in the previous actuarial valuation. Rates of turnover and retirement differ by union status and eligibility for unreduced retirement in the pension plans.
- **Mortality assumption:** The mortality assumption used in this valuation is based the RP-2000 healthy annuitant tables as developed by the Society of Actuaries Retirement Plans Experience Committee (RPEC). Employee versions are used for pre-retirement and the combined version is used for FOP members upon retirement. Also, the mortality rates are projected on a generational basis using Scale AA to incorporate future mortality improvements in the valuation process.

**Healthcare assumptions:** When an employee starts receiving postemployment benefits many years from now, how much will be paid each year for the benefits and how rapidly will the costs grow?

- **Per Capita Claim Costs:** Initial per capita costs equal the premium rates paid by the City to the State of Delaware Group Health Insurance Benefits Plans. Based on this arrangement, these plans are community rated to the City and no implicit rate subsidy is valued.

## CITY OF DOVER, DELAWARE

### Other Postemployment Benefit Valuation

#### SECTION I – SUMMARY OF RESULTS

(Continued)

- **Coverage Election Rates:** Members are assumed to elect the same plan upon retirement as elected as an active employee as of the valuation date. 40% of male members and 25% of female members are assumed to cover spouses.
- **Healthcare Inflation Rate:** Healthcare trend is based on the Society of Actuaries-Getzen Model with some adjustments for administrative costs, the Affordable Care Act and the excise tax beginning in fiscal year 2018.

**Discount rate assumption:** What is the present value of those future benefit payments in terms of today's dollars?

- GASB 45 provides guidance to employers in selecting the discount rate. The discount rate should be the estimated long-term investment yield on the investments that are expected to be used to finance the benefits. If there are no plan assets, assets of the employer should be used to derive the discount rate. If assets exist in a Trust, the discount rate should reflect the long-term return on those assets. Since the City is fully funding the ARC, the discount rate is 6.5% for a fully funded plan.

#### Discussion of Supporting Exhibits

Exhibit 1 summarizes the assets in the Trust by Fund as of June 30, 2014.

Exhibit 2 summarizes the change in assets from the prior year and displays the estimated market value rate of return for the fiscal year ending June 30, 2014 as well as the prior two fiscal years.

Exhibit 3 summarizes the Actuarial Accrued Liability by Fund, union, employee status and benefit type as of July 1, 2014 based on a discount rate of 6.5%. The Actuarial Accrued Liability for the health benefits net of retiree contributions and Medicare Part B reimbursements is \$51.2 million with 75% attributable to the General Fund, 6% attributable to the Water Fund, and 19% attributable to the Electric Fund.

Exhibit 4 summarizes the development of the ARC and the Annual OPEB Cost based for the fiscal year ending June 30, 2015 by Fund. The ARC is \$3.8 million with 88% allocated to the General Fund, 5% allocated to the Water Fund and 7% to the Electric Fund. The ARC as a percent of base pay as of July 1, 2014 is 22.3%. The exhibit also displays the estimated claim payments for the year and the additional net City funding contribution. The City funding contributions shown by Fund have been adjusted to reflect that the expected claim payments attributable to the Electric Fund exceeds the

## **CITY OF DOVER, DELAWARE**

### Other Postemployment Benefit Valuation

#### **SECTION I – SUMMARY OF RESULTS**

(Continued)

ARC resulting no City funding contribution. This excess offsets the amount owed by the General Fund.

Exhibit 4 also summarizes the Annual OPEB Cost, which is equal to the ARC less an amortization of the Net OPEB Obligation.

Exhibit 5 summarizes the final Net OPEB Obligation as of June 30, 2015. The Net OPEB Obligation of \$11.4 million shown is based on the actual contribution paid by the City for the fiscal year ending June 30, 2015.

Exhibit 6 displays the required supplementary schedules: Schedule of Funding Progress and the Schedule of Employer Contributions.

Exhibit 7 summarizes the expected premium payments and Medicare Part B reimbursements projected over the next 10 fiscal years.

#### Census Data

Section III summarizes the census data provided by the City utilized in the preparation of the actuarial valuation. The section shows the number of active and retired employees by Fund and union plus provides a breakdown of the coverage by option elected and contract information.

#### Summary of Principal Plan Provisions

Section IV summarizes the principal plan provisions as of the valuation date utilized in the preparation of this actuarial valuation. This information was supplied through various correspondences with the City.

#### Actuarial Assumptions and Methods

Section V summarizes the actuarial assumptions and methods utilized in the preparation of this actuarial valuation. The liabilities provided in this report are heavily dependent upon the assumptions utilized, especially regarding annual per capita costs and healthcare trend.

**CITY OF DOVER, DELAWARE**

Other Postemployment Benefit Valuation

**SECTION II – EXHIBITS**

**Market Value of OPEB Trust Fund Assets as of June 30, 2014**

Assets		
Operating Account	\$427,882	
Cash Equivalents	365,102	
Mutual Funds	<u>17,965,795</u>	
Total		\$18,758,779
Liabilities		
Accounts payable	<u>(6,583)</u>	
Total		<u>(6,583)</u>
Net Assets in OPEB Trust Fund		\$18,752,196

**Allocation of Market Value by Fund as of June 30, 2014**

General Fund	\$9,492,179
Water/Wastewater Fund	1,654,233
Electric Fund	<u>7,605,784</u>
Total Assets in OPEB Trust Fund	\$18,752,196

Exhibit 1

Milliman's work product was prepared solely for the City of Dover, Delaware for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

**CITY OF DOVER, DELAWARE**

Other Postemployment Benefit Valuation

**SECTION II – EXHIBITS**

**Change in Market Value of OPEB Trust Fund Assets**

Market Value of Assets as of June 30, 2013		\$13,627,223
Income		
City's contribution (incl Med B reimbursements)	5,086,180	
Net Investment income	<u>2,169,596</u>	
Total		7,255,776
Disbursements		
Benefit payments	(2,113,303)	
Administrative Expenses	<u>(17,500)</u>	
Total		<u>(2,130,803)</u>
Net increase/ (decrease)		5,124,973
Market Value of Assets as of June 30, 2014		\$18,752,196
Estimated rate of return		14.36%

**Estimated Historical Rates of Return**

<u>Fiscal Year Ending</u>	<u>Market Value</u>
June 30, 2014	14.36%
June 30, 2013	6.81%
June 30, 2012	2.67%
June 30, 2011	15.57%
June 30, 2010	2.16%
5 - Year Average	8.17%

Exhibit 2

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# CITY OF DOVER, DELAWARE

## Other Postemployment Benefit Valuation

### SECTION II – EXHIBITS

#### Actuarial Accrued Liability as of July 1, 2014

<u>Fund Type</u>	<u>Active Members</u>	<u>Deferred Vesteds and Retirees</u>	<u>Part B Reimbursements</u>	<u>Total</u>
General Fund (110)	\$14,058,857	\$21,947,478	\$2,109,745	\$38,116,080
Water/Wastewater Fund (412)	799,043	2,207,251	209,418	3,215,712
Electric Fund (480)	<u>2,058,820</u>	<u>7,008,554</u>	<u>825,358</u>	<u>9,892,732</u>
Total Actuarial Accrued Liability	16,916,720	31,163,283	3,144,521	51,224,524

#### Member Type

Nonunion (incl AFSCME)	\$2,795,682	\$17,365,759	\$2,487,816	\$22,649,257
Police	8,533,361	11,061,437	656,705	20,251,503
IBEW	1,422,296	327,133	-	1,749,429
IUE	<u>4,165,381</u>	<u>2,408,954</u>	<u>-</u>	<u>6,574,335</u>
Total Actuarial Accrued Liability	\$16,916,720	\$31,163,283	\$3,144,521	\$51,224,524

The discount rate for the 2015 fiscal year is 6.5% as the phase-in has been eliminated.

Certain retirees are allocated to multiple funds according to the following percentages:  
General Fund 39%, Water/Wastewater Fund 16% and Electric Fund 45%.

All civilian retirees as of July 1, 2010 are included with the nonunion members since no code was provided.

Exhibit 3

## CITY OF DOVER, DELAWARE

### Other Postemployment Benefit Valuation

#### SECTION II – EXHIBITS

##### Annual Required Contribution For Fiscal Year Ending June 30, 2015

	(110) General <u>Fund</u>	(412) Water <u>Fund</u>	(480) Electric <u>Fund</u>	<u>Total</u>
Actuarial Accrued Liability	\$38,116,080	\$3,215,712	\$9,892,732	\$51,224,524
Market Value of Assets	<u>9,492,179</u>	<u>1,654,233</u>	<u>7,605,784</u>	<u>18,752,196</u>
Unfunded Liability	28,623,901	1,561,479	2,286,948	32,472,328
Funded Ratio	24.9%	51.4%	76.9%	36.6%
Normal Cost	\$1,091,597	\$59,684	\$90,929	\$1,242,210
Amortization Payment	2,058,164	112,276	164,440	2,334,880
Interest at 6.50%	<u>204,734</u>	<u>11,177</u>	<u>16,599</u>	<u>232,510</u>
Annual Required Contribution	3,354,495	183,137	271,968	3,809,600
% of Base Compensation	24.5%	18.1%	11.4%	22.3%
Estimated Claim Payments	\$1,413,000	\$165,000	\$537,000	\$2,115,000
Net City Funding Contribution	1,676,463	18,137	-	1,694,600
% of Base Compensation	12.3%	1.8%	0.0%	9.9%

##### Annual OPEB Cost For Fiscal Year Ending June 30, 2015

Net OPEB Obligation BOY	\$14,668,233	\$485,581	(\$2,068,684)	\$13,085,130
Annual Required Contribution	3,354,495	183,137	271,968	3,809,600
Interest on Net OPEB Obligation	953,435	31,563	(134,464)	850,534
Adjustment to ARC	<u>(1,123,256)</u>	<u>(37,185)</u>	<u>158,415</u>	<u>(1,002,026)</u>
Annual OPEB Cost	3,184,674	177,515	295,919	3,658,108

The ARC is based on a discount rate of 6.5% and a 30-year amortization (open) of the unfunded liability.

Exhibit 4

Milliman's work product was prepared solely for the City of Dover, Delaware for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.



# CITY OF DOVER, DELAWARE

## Other Postemployment Benefit Valuation

### SECTION II – EXHIBITS

#### Net OPEB Obligation as of June 30, 2015

	(110) General <u>Fund</u>	(412) Water <u>Fund</u>	(480) Electric <u>Fund</u>	<u>Total</u>
Net OPEB Obligation BOY	\$14,668,233	\$485,581	(\$2,068,684)	\$13,085,130
Annual OPEB Cost	3,184,674	177,515	295,919	3,658,108
Actual Contributions	<u>3,295,855</u>	<u>300,009</u>	<u>1,709,143</u>	<u>5,305,007</u>
Expense Difference	(111,181)	(122,494)	(1,413,224)	(1,646,899)
Net OPEB Obligation EOY	14,557,052	363,087	(3,481,908)	11,438,231

Exhibit 5

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# CITY OF DOVER, DELAWARE

## Other Postemployment Benefit Valuation

### SECTION II – EXHIBITS

#### 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>
7/1/2014	\$18,752,196	\$51,224,524	\$32,472,328	36.6%	\$17,059,787	190.3%
7/1/2012	10,913,172	71,021,484	60,108,312	15.4%	17,335,618	346.7%
7/1/2010	4,882,375	83,518,121	78,635,746	5.8%	18,292,104	429.9%

#### Schedule of Employer Contributions

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Total Contributions</u>	<u>% of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2015	\$3,658,108	\$5,305,007	145.0%	\$11,438,231
6/30/2014	5,779,249	5,086,180	88.0%	13,085,130
6/30/2013	5,948,117	4,019,778	67.6%	12,392,061

Exhibit 6

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# CITY OF DOVER, DELAWARE

## Other Postemployment Benefit Valuation

### SECTION II – EXHIBITS

#### Expected Claim Payments by Fiscal Year

Fiscal Year	<u>Health Benefits*</u>	<u>Part B Reimbursements</u>	<u>Total</u>
2015	\$ 1,981,000	\$ 134,000	\$ 2,115,000
2016	2,221,000	135,000	2,356,000
2017	2,361,000	141,000	2,502,000
2018	2,476,000	150,000	2,626,000
2019	2,636,000	160,000	2,796,000
2020	2,746,000	173,000	2,919,000
2021	2,890,000	190,000	3,080,000
2022	3,097,000	201,000	3,298,000
2023	3,257,000	218,000	3,475,000
2024	3,472,000	230,000	3,702,000

\* Payments are net of any retiree or spouse contributions

Exhibit 7

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# CITY OF DOVER, DELAWARE

## Other Postemployment Benefit Valuation

### SECTION III Summary of Census Data as of July 1, 2014

	AFSCME + <u>Nonunion</u>	<u>Police</u>	<u>IBEW</u>	<u>DOE</u>	<u>Total</u>
<b>Active Members</b>					
Blue Care *	13	15	3	24	55
Comprehensive PPO	62	75	30	94	261
Waived Coverage	<u>5</u>	<u>1</u>	<u>0</u>	<u>4</u>	<u>10</u>
Total Number	80	91	33	122	326
General Fund (110)	72	91	1	96	260
Water Fund (412)	4	0	0	21	25
Electric Fund (480)	<u>4</u>	<u>0</u>	<u>32</u>	<u>5</u>	<u>41</u>
Total Number	80	91	33	122	326
Average Age	47.0	38.7	43.0	45.0	43.5
Average Service	12.0	11.8	16.1	11.0	12.0
Average Salary	\$53,855	\$68,098	\$60,289	\$37,417	\$52,331
<b>Retirees, Surviving Spouses, Deferred Vesteds <sup>1</sup></b>					
Blue Care <sup>2</sup>	27	5	4	0	36
Comprehensive PPO <sup>3</sup>	62	44	11	2	119
Medicfill <sup>4</sup>	92	19	4	0	115
Non-Covered	<u>2</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>4</u>
Total Number	183	69	20	2	274
Single Coverage	134	43	13	1	191
EE/SP Coverage <sup>5</sup>	47	25	6	1	79
Non-Covered	<u>2</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>4</u>
Total Number	183	69	20	2	274
General Fund (110)	85	69	15	0	169
Water Fund (412)	14	0	4	0	18
Electric Fund (480)	62	0	0	2	64
Allocated to all 3 funds	<u>22</u>	<u>n/a</u>	<u>1</u>	<u>n/a</u>	<u>23</u>
Total Number	183	69	20	2	274
Average Age	67.1	60.3	61.3	59	65.3
Eligible for Medicare Part B	151	43	0	0	194

<sup>1</sup> All IBEW and DOE retirees prior to 2010 are included in nonunion columns

<sup>2</sup> Includes members in any other HMO

<sup>3</sup> All Deferred Vesteds are assumed to elect Comprehensive PPO upon retirement and spouse coverage according to assumption

<sup>4</sup> If spouse is under 65, member is allocated according to spouse's plan

<sup>5</sup> Includes family coverage; employee-child dependent coverage included with single coverage

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**CITY OF DOVER, DELAWARE**

Other Postemployment Benefit Valuation

**SECTION IV – SUMMARY OF PRINCIPAL PLAN PROVISIONS  
as of JULY 1, 2014**

- 1) Type of Plans Covered: Medical and Pharmacy benefits plus Medicare Part B reimbursements for certain members are covered by this valuation. No life insurance benefits are provided to terminated members. Generally, the City covers the costs of benefits for retirees and 75% of the costs of benefits for spouses. New retirees will contribute 15% of the applicable premium with the effective date varying by group: July 1, 2012 for police and non-bargaining, June 1, 2013 for DOE employees, and July 1, 2015 for AFSCME if hired prior to May 20, 2014 (new hires on or after May 20, 2014 contribute 20% of individual premium and 100% of spouse premium). IBEW employees hired on or after July 1, 2014 contribute 20% of the individual premium and 100% of the spouse premium (members hired prior to July 1, 2014 contribute 100% of the spouse premium).
- 2) Eligibility for Membership: Full-time employment with the City.
- 3) Credited Service: Credited Service is earned for full-time employment with the City.
- 4) State of Delaware Group Health Insurance Benefit Plans: The City is a Participating Employer in the State of Delaware Group Health Insurance Benefits Plans. The State Employee Benefits Committee determines the benefit options offered to its members. These options include a Basic and a Comprehensive PPO plan plus two HMO plans for non-Medicare eligible members. All plans are considered community rated to the City. For Medicare eligible members, a Medicare supplemental plan is available. Pharmacy benefits are provided by Medco. The premiums for the medical plans include the pharmacy benefits. The premiums for these plans are summarized below.

Premiums Effective July 1, 2014		
Plan	Employee	Employee/Spouse
First State Basic Plan	\$579.61	\$1,196.34
Comprehensive PPO	\$661.34	\$1,369.44
Blue Care HMO	\$605.48	\$1,276.60
Aetna HMO	\$605.00	\$1,272.57
Medicfill (w/ Rx)	\$382.57	\$765.14

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## CITY OF DOVER, DELAWARE

### Other Postemployment Benefit Valuation

#### SECTION IV – SUMMARY OF PRINCIPAL PLAN PROVISIONS as of JULY 1, 2014 (Continued)

5) Benefits for Civilians:

a) Covered Groups: Full-time DOE (formerly IUE), IBEW and non-union employees and their dependents are covered.

b) Eligibility: Satisfaction of either of the following eligibility requirements:

(1) Unreduced Retirement: Attainment of the earlier of the following conditions:

(a) Later of attainment of age 65 and completion of 10 years of service.

(b) If hired prior to May 1, 1994, later of attainment of age 50 and completion of 20 years of service.

(c) If hired prior to May 1, 1994, completion of 25 years of service.

(d) If hired on or after May 1, 1994, later of attainment of age 55 and completion of 80 points (age plus service).

(2) Reduced Retirement: For DOE and non-union members hired prior to July 1, 1994, attainment of age 55 and completion of 10 years of service. Other members who meet this condition have the option to pay 100% of the premiums for coverage.

(3) Vested Termination: For DOE and non-union members hired prior to July 1, 1994, completion of 10 years of service. Coverage commences upon attainment of age 65. Coverage is not available to other members.

(4) Active Death: Surviving spouses of members eligible for an unreduced pension upon death or for DOE and non-union members hired prior to July 1, 1994, completion of 10 years of service.

## CITY OF DOVER, DELAWARE

### Other Postemployment Benefit Valuation

#### SECTION IV – SUMMARY OF PRINCIPAL PLAN PROVISIONS as of JULY 1, 2014 (Continued)

- c) Premium Cost Sharing: Cost-sharing varies by employee group, date of retirement and/or date of hire as follows:
- (1) Non-Union Employees:
    - a. None if retired prior to July 1, 1991
    - b. 0% for individual coverage and 25% for spouse coverage is retired on or after July 1, 1991 and prior to July 1, 2012
    - c. 15% for individual and spouse coverage if retire on or after July 1, 2012
  - (2) DOE Employees:
    - a. None if retired prior to September 1, 1991
    - b. 0% for individual coverage and 25% for spouse coverage is retired on or after September 1, 1991 and prior to June 1, 2013
    - c. 15% for individual and spouse coverage if retire on or after June 1, 2013
  - (3) IBEW Employees:
    - a. 0% for individual coverage and 25% for spouse coverage if hired prior July 1, 1986
    - b. 0% for individual coverage and 100% for spouse coverage if hired on or after July 1, 1986 and prior to July 1, 2014
    - c. 20% for individual coverage and 100% for spouse coverage if hired on or after July 1, 2014
  - (4) AFSCME Employees:
    - a. 0% for individual coverage and 25% for spouse coverage if retire prior to July 1, 2015
    - b. 15% for individual and spouse coverage if hired prior to May 20, 2014 and retire on or after July 1, 2015
    - c. 20% for individual coverage and 100% for spouse coverage if hired on or after May 20, 2014
- d) Benefit Duration: Retiree coverage is provided for lifetime. Spouse coverage is provided for the spouse's lifetime.

## CITY OF DOVER, DELAWARE

### Other Postemployment Benefit Valuation

#### SECTION IV – SUMMARY OF PRINCIPAL PLAN PROVISIONS

as of JULY 1, 2014

(Continued)

e) Medicare Part B Reimbursement: Eligible retirees receive reimbursement of the Medicare Part B premium. The Medicare Part B premium for 2014 and 2015 are \$104.90 and \$104.90, respectively. Spouses are not eligible for the reimbursement. Eligible retirees are:

- (1) Non-union employees who were hired prior to July 28, 2009.
- (2) IBEW employees who retired prior to July 1, 2009.
- (3) DOE employees who retired prior to January 31, 2010.

6) Benefits for Police Officers:

b) Covered Groups: Full-time FOP employees and their dependents are covered. Only provisions for members hired on after September 1, 1982 are shown.

b) Eligibility: Satisfaction of either of the following eligibility requirements:

- (1) Unreduced Retirement: Attainment of the earlier of the following conditions:
  - (a) Later of attainment of age 62 and completion of 10 years of service.
  - (b) Completion of 20 years of service.
  - (c) Later of completion of 10 years of service and 75 points (age plus service).
- (2) Reduced Retirement: Not applicable.
- (3) Vested Termination: None.
- (4) Active Death: Surviving spouses of members eligible for an unreduced pension upon death.

c) Premium Cost Sharing:

- (1) None if retired prior to July 1, 1991
- (2) 0% for individual coverage and 25% for spouse coverage if retired on or after July 1, 1991 and prior to July 1, 2012
- (3) 15% for individual and spouse coverage if retire on or after July 1, 2012

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## CITY OF DOVER, DELAWARE

### Other Postemployment Benefit Valuation

#### **SECTION IV – SUMMARY OF PRINCIPAL PLAN PROVISIONS as of JULY 1, 2014 (Continued)**

- d) Benefit Duration: Retiree coverage is provided for lifetime. Spouse coverage is provided for the spouse's lifetime.
- e) Medicare Part B Reimbursement: Eligible retirees receive reimbursement of the Medicare Part B premium. The Medicare Part B premium for 2014 and 2015 are \$104.90 and \$104.90, respectively. Spouses are not eligible for the reimbursement. Eligible retirees are members who retired prior to September 30, 2006.

#### **Changes in Plan Provisions**

The cost sharing percentages changed for DOE employees who retire on or after June 1, 2013, IBEW employees hired on or after July 1, 2014 and AFSCME employees who retire on or after July 1, 2015 have been changed.

**CITY OF DOVER, DELAWARE**

Other Postemployment Benefit Valuation

**SECTION V - SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS**

**A. Actuarial Assumptions**

Discount Rate: 6.5% per annum, compounded annually.

Health Cost Trend: The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 12.2 utilizing the baseline assumptions included in the model, except for an inflation assumption of 2.5% and a real GDP growth assumption of 1.8%. Further adjustments are made for changes due to the Affordable Care Act (ACA), aging, percentage of costs associated with administrative expenses, inflation on administrative costs, and potential excise tax due to ACA. The trend assumption for the Medicare Part B reimbursement is based on the lessor of 4.5% and the rates (without excise tax) contained in the table below. The health cost trend assumption at sample years is as follows:

<u>&lt; Age 65</u>			<u>&gt;= Age 65</u>		
<u>Fiscal</u> <u>Year</u>	<u>Trend</u>	<u>With</u> <u>Excise Tax</u>	<u>Fiscal</u> <u>Year</u>	<u>Trend</u>	<u>With</u> <u>Excise Tax</u>
2015	17.9%	17.9%	2015	1.9%	1.9%
2016	6.7	6.7	2016	4.3	4.3
2017	6.2	6.2	2017	4.5	4.5
2018	5.7	5.7	2018	5.0	5.1
2019	5.4	5.4	2019	5.4	5.4
2024	5.4	5.8	2024	5.4	5.4
2029	5.4	5.8	2029	5.4	5.4
2034	5.5	6.4	2034	5.5	5.5
2044	5.2	5.8	2049	5.1	5.1
2054	5.1	5.5	2054	5.1	5.5

Annual Per Capita Claims Cost: Premiums were used as the claim costs since the City participates in the State health benefit pool. Based on this arrangement, the City health plans are community rated with no pre-65 implicit rate subsidy.

Coverage Election Rates: Eligible active members are assumed to elect at retirement the same health option elected in 2014 for under age 65 coverage. Terminated vested members are assumed to elect PPO coverage. Actual elections are used for current retirees. Any member who elected any HMO is assumed to elect Blue Care HMO.

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# CITY OF DOVER, DELAWARE

## Other Postemployment Benefit Valuation

### SECTION V - SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

(Continued)

Dependent Coverage: 40% of male members and 25% of female members are assumed to elect spouse coverage at retirement. For current retirees, if member elected any type of dependent coverage, employee/spouse coverage was assumed. Males are assumed to be 3 years older than females for future retirees and any current retirees where a dependent date of birth was not available.

Termination: Withdrawal rates vary by union status, age, and service. No terminations are assumed once a member is eligible for reduced or unreduced retirement. Illustrative rates are shown below.

#### Union

<u>Age</u>	<u>DOE/IBEW</u>	<u>FOP</u>
25	10.0%	2.2%
30	9.4	1.7
35	8.2	1.1
40	6.7	0.5
45	5.2	0.1
50	3.3	0.0
55	1.2	0.7

#### Non-union

<u>Age</u>	<u>&lt;3 Years</u>	<u>3 – 4 Years</u>	<u>5+Years</u>
25	30.0%	27.0%	25.5%
30	30.0	27.0	23.4
35	30.0	27.0	20.3
40	30.0	27.0	16.6
45	30.0	27.0	12.5
50	30.0	27.0	7.5
55	30.0	27.0	2.6

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**CITY OF DOVER, DELAWARE**

Other Postemployment Benefit Valuation

**SECTION V - SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS**

(Continued)

Retirement: Rates of retirement vary by union, age and eligibility for unreduced retirement. No reduced retirements are assumed. Illustrative rates are shown below. In addition, the rate of retirement for FOP members who attain 75 points prior to completion of 20 years and attainment of age 60 is 50% per year and the rate of retirement for FOP members who have attained ages 46-54 at completion of 20 years of service is 20%.

Age	Civilians Hired pre 5/94	Civilians Hired pst 5/94	FOP	Age	Civilians Hired pre 5/94	Civilians Hired pst 5/94	FOP
<=40	0%	0%	10%	60	20	10	100
41-45	0	0	20	61	25	10	100
46-49	0	0	10	62	25	20	100
50-51	4	0	10	63-64	25	15	100
52-54	8	0	10	65	25	50	100
55-57	8	6	100	66	50	50	100
58	10	6	100	67-69	100	50	100
59	15	6	100	70	100	100	100

Disability: None assumed:

Mortality:

Healthy Lives: RP-2000 Healthy Annuitant Mortality Table projected on a generational basis using Scale AA. The Combined table is used for FOP members. The Employee table is used for pre-retirement for all members. Rates vary by age and gender.

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# CITY OF DOVER, DELAWARE

## Other Postemployment Benefit Valuation

### SECTION V - SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

(Continued)

#### **B. Actuarial Cost Method**

The Projected Unit Credit Method was used for determining service costs and the actuarial accrued liability known as the Accumulated Postretirement Benefit Obligation. The Accumulated Postretirement Benefit Obligation is the Actuarial Present Value of Benefits attributed to an employee's service as of the measurement date based on the employee's projected service to his expected retirement age. The Service Cost is the Actuarial Present Value of Benefits attributed to the employee's upcoming year of service.

#### **C. Changes in Actuarial Assumptions or Methods**

- The funded discount rate was decreased 50 basis points from 7.0% to 6.5% and the phase-in was eliminated since the City is fully funding the ARC.
- The healthcare trend assumption has been updated and modified to reflect the provisions of the Affordable Care Act.

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