

**CITY OF GRAND RAPIDS LIBRARY
OTHER POSTEMPLOYMENT BENEFITS
ACTUARIAL VALUATION REPORT
JUNE 30, 2013**



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November 27, 2013

Mr. John Baar
Human Resources Manager
City of Grand Rapids Main Library
111 Library Street NE
Grand Rapids, Michigan 49503

Dear Mr. Baar:

Submitted in this report are the results of an Actuarial Valuation of the benefit values associated with the employer financed Other Postemployment Benefits provided by the City of Grand Rapids Library. The date of the valuation was June 30, 2013, effective for the fiscal year beginning July 1, 2013. This report was prepared at the request of the City of Grand Rapids.

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 the System's financial reporting requirements may produce significantly different results.

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

The valuation was based upon information, furnished by the Library, concerning retiree health care benefits, individual members, and financial data. Data was checked for internal consistency, but was not otherwise audited. We are not responsible for the accuracy or completeness of the information provided by the Library.

The actuarial methods and assumptions used in the valuation are summarized in Section D of this report. The assumptions are established by the Library after consulting with the actuary.

This report should not be relied on for any purpose other than those described herein. It is intended for use by the Library and those designated or approved by the Library. This report may be provided to parties other than the City of Grand Rapids Library only in its entirety and only with the permission of the City of Grand Rapids Library.

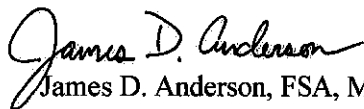
The signing actuaries are independent of the plan sponsor.

Mr. John Baar
November 27, 2013
Page 2

To the best of our knowledge, the information contained in this report is accurate and fairly presents the actuarial position of the City of Grand Rapids Library as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices, with the Actuarial Standards of Practice issued by the Actuarial Standards Board.

James Anderson and Abra Hill are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Respectfully submitted,


James D. Anderson, FSA, MAAA


Abra D. Hill, ASA, MAAA

JDA/ADH:bd

C2482L

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Annual Required Contribution

This report presents the Annual Required Contribution calculated in compliance with the accounting requirements of the Governmental Accounting Standards Board (GASB) Statement No. 45. In addition, the Plan may need to comply with GASB Statement No. 43. Please consult with legal counsel and your auditors to determine whether you have a Plan for GASB Statement No. 43 purposes.

The Annual Required Contribution (ARC) for the fiscal year beginning July 1, 2013 was determined to be \$163,038. Actual claims and premiums paid on behalf of the retirees including the implicit rate subsidy may be treated as employer contributions in relation to the ARC and act to reduce the Net OPEB Obligation (NOO) described below under Additional OPEB Reporting Requirements. The expected employer portion of the claims and premium amounts paid during the fiscal year beginning July 1, 2013 are estimated to be \$140,904. These amounts reflect the employer portion of the retiree only premium rates and the implicit subsidy for retirees and covered spouses.

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 GASB Statement No. 45. The Net OPEB Obligation is zero as of the beginning of the fiscal year that GASB 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 GASB Statement No. 45. Additional information required to be disclosed in the employer's financial statements is detailed in paragraphs 24 through 27 of GASB Statement No. 45.

EXECUTIVE SUMMARY (CONCLUDED)

Liabilities and Assets

The present value of all benefits expected to be paid to current plan members as of June 30, 2013 is \$907,639. The actuarial accrued liability, which is the portion of the \$907,639 attributable to service accrued by plan members as of June 30, 2013 is \$807,530. There are no assets currently set aside for OPEB purposes as of June 30, 2013.

SECTION A
VALUATION RESULTS

**DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTIONS
FOR THE OTHER POSTEMPLOYMENT BENEFITS**

| Contributions for | Annual Required Contribution |
|--|------------------------------|
| Employer Normal Cost | \$ 14,085 |
| Amortization of Unfunded Actuarial Accrued Liabilities (Amortized over 6 years) | <u>\$ 148,953</u> |
| Annual Required Contribution (ARC) for the Fiscal Year beginning July 1, 2013 | \$ 163,038 |
| ARC Per Active DB Participant | \$ 27,173 |

| | |
|--|-------------------|
| Annual Required Contribution (ARC) for the Fiscal Year beginning July 1, 2014 | \$ 161,624 |
| ARC Per Active DB Participant | \$ 26,937 |

| | |
|--|-------------------|
| Annual Required Contribution (ARC) for the Fiscal Year beginning July 1, 2015 | \$ 160,724 |
| ARC Per Active DB Participant | \$ 26,787 |

The results on this page are calculated under the assumption that the Library will not follow a funding arrangement with contributions at least equal to the Annual Required Contribution (ARC). The unfunded actuarial accrued liabilities were amortized using level dollar amounts. A 6-year amortization period for unfunded actuarial accrued liabilities was used. Thirty years is the maximum period that complies with GASB requirements.

**DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
AS OF JUNE 30, 2013**

| | |
|--|----------------|
| A. Present Value of Future Benefits | |
| 1. Retirees and Beneficiaries | \$ 518,266 |
| 2. Vested Terminated Members | 0 |
| 3. Active Members | <u>389,373</u> |
| Total Present Value of Future Benefits | \$907,639 |
| B. Present Value of Future Employer Normal Costs | 100,109 |
| C. Actuarial Accrued Liability (A.-B.) | 807,530 |
| D. Actuarial Value of Assets | 0 |
| E. Unfunded Actuarial Accrued Liability (C.-D.) | \$807,530 |
| F. Funded Ratio (D./C.) | 0.0% |

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

COMMENT A: One of the key assumptions used in any valuation of the cost of postemployment benefits is the long-term rate of investment return on plan assets. Higher assumed investment returns will result in a lower Annual Required Contribution (ARC). Lower returns will result in a higher ARC. If a plan sponsor chooses to pre-fund with contributions less than the ARC, the Governmental Accounting Standards Board (GASB) requires using an assumed investment return on assets that reflects the expected return on the plan sponsor's general assets. If a plan sponsor chooses to pre-fund with contributions equal to the ARC a higher interest rate may be used. The Library has not made contributions equal to the ARC into a trust or equivalent arrangement that satisfies the GASB requirements necessary for the assets to count against OPEB liabilities for financial statement purposes. Therefore, we have calculated the liability and the resulting ARC using an assumed investment return of 3.5% which is the expected investment return on the Library's general assets.

COMMENT B: Based on the number of plan members as of this valuation, the plan sponsor is required by GASB to perform actuarial valuations at least triennially.

COMMENT C: The contribution rates shown include amortization of the unfunded actuarial accrued liability over 6 years. A shorter amortization period would result in a higher ARC. The maximum time period permitted by GASB Statement No. 45 is 30 years.

COMMENT D: Actual claims and/or premiums paid on behalf of retirees may be treated as employer contributions in relation to the ARC and act to reduce the NOO. The amount of estimated claims and/or premiums paid by the employer on behalf of retirees including the effect of the implicit rate subsidy under GASB for the fiscal year ending June 30, 2014, 2015, and 2016 are \$140,904, \$145,963, and \$162,146 respectively.

COMMENT E: No liabilities for post-retirement life insurance have been included in the reported results.

COMMENT F: The primary reason for the increase in the ARC since the prior valuation is the change in amortization period. Based on the amortization period used for the June 30, 2010 valuation, the amortization period for this valuation would have been 7-years. Instead, a 6-year amortization period was used in order to better reflect expected premiums paid by the employer, as well as the expected future working lifetime of the active population eligible for OPEB benefits. In addition, the fully-insured premium for members retiring on or after July 1, 2010 increased more than expected, and the trend used for Medical and Prescription Drug costs was reset to 9% in 2014.

SECTION B

RETIREE PREMIUM RATE DEVELOPMENT

RETIREE PREMIUM RATE DEVELOPMENT

Initial premium rates were developed for the pre-65 retirees. The fully-insured rates provided by the City of Grand Rapids Library were utilized to determine the appropriate premium rates. The pre-65 fully-insured premiums for members retiring on or after July 1, 2010 were blended rates based on the experience of active members and pre-65 retirees; therefore, there is an explicit employer subsidy for the non-Medicare eligible retirees since the average costs of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees. The true pre-65 per capita cost for members retiring on or after July 1, 2010 was developed by adjusting the demographic differences between the active employees and retirees to reflect this implicit rate subsidy for the retirees. Since we did not have access to current active member data, statistics generated from the June 30, 2010 OPEB actuarial valuation report were used for this adjustment.

The pre-65 premiums for members retiring prior to July 1, 2010 were determined to be unblended rates based on the experience of pre-65 retired members only; therefore, the fully-insured retiree premium rates were used as the basis of the initial per capita cost without adjustment since the rate reflects the demographics of the pre-65 retiree group.

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

The combined monthly one-person medical and drug premiums at select ages as well as dental and vision premiums are shown on the next page.

RETIREE PREMIUM RATE DEVELOPMENT

Members Retiring Prior to July 1, 2010

For Those Not Eligible for Medicare

| <u>Age</u> | <u>Male</u> | <u>Female</u> |
|------------|-------------|---------------|
| 45 | \$ 400.83 | \$ 524.76 |
| 50 | 542.29 | 614.45 |
| 55 | 708.76 | 728.54 |
| 60 | 890.41 | 855.88 |

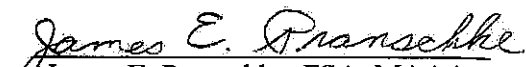
Members Retiring On or After July 1, 2010

For Those Not Eligible for Medicare

| <u>Age</u> | <u>Male</u> | <u>Female</u> |
|------------|-------------|---------------|
| 45 | \$ 371.58 | \$ 486.46 |
| 50 | 502.71 | 569.60 |
| 55 | 657.03 | 675.37 |
| 60 | 825.42 | 793.41 |

Single and dual dental premiums were assumed to be \$41.89 and \$77.02 respectively. Single and dual vision premiums were assumed to be \$8.22 and \$14.08 respectively.

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


James E. Pranschke, FSA, MAAA

SECTION C

**SUMMARY OF BENEFIT PROVISIONS
AND VALUATION DATA**

CITY OF GRAND RAPIDS LIBRARY RETIREE HEALTH CARE PLAN

SUMMARY OF BENEFITS VALUED AS OF JUNE 30, 2013

PLAN PARTICIPANTS

Full-time Library employees of the City of Grand Rapids Library Retiree Health Care Plan hired prior to July 1, 2010 are eligible to receive retiree health care, dental, and vision benefits.

Non-represented: If hired before October 21, 2008 retiree may participate in Library Health Plan or make an irrevocable election to join Retiree Health Savings Plan (RHSA). Those hired after this date must participate in RHSA.

Supervisory\Rank and File: If hired before July 9, 2009 retiree may participate in Library Health Plan or make an irrevocable election to join Retiree Health Savings Plan (RHSA). Those hired after this date must participate in RHSA.

BENEFIT AMOUNT

Members Retired Before July 1, 2010: The Library covers 100% of retiree health care, vision and dental coverage up to age 65.

Members Retired After June 30, 2010: The Library covers a portion of retiree health care, vision and dental coverage up to age 65. Members must contribute to the cost of Health Insurance at the same rate as the current employees. Effective 9/1/2009, the employees started paying 5% of cost; increased to 7.5% on 9/1/2010 and then to 10% on 9/1/2011.

BENEFIT ELIGIBILITY - RETIREMENT

Plan participants are eligible to receive a portion of their retiree health insurance costs paid by the City of Grand Rapids Library if they are eligible for retirement at time of separation from employment. Retirement eligibility conditions are the earlier of the following:

- Age 50 with 30 or more years of service, or
- Age 62 with 8 or more years of service.

EARLY RETIREMENT ELIGIBILITY

Library participants are eligible for retiree health care benefits upon eligibility for early retirement at the earlier of the following:

- Any age with 20 or more years of service, or
- Age 55 with 10 or more years

DEFERRED RETIREMENT ELIGIBILITY

Plan participants who retire from a deferred (vested) status are not eligible to purchase retiree health care through the Library retiree health care plan.

CITY OF GRAND RAPIDS LIBRARY RETIREE HEALTH CARE PLAN

SUMMARY OF BENEFITS VALUE AS OF JUNE 30, 2013

DUTY/NON-DUTY DISABLED RETIREMENT ELIGIBILITY

Disabled Library participants are eligible for retiree health care benefits at any age with 10 years of service. Benefits commence immediately for qualified disabled member.

DEATH-IN-SERVICE ELIGIBILITY

Survivors of Library participants are eligible for retiree health insurance at any age with 8 years of service. Coverage for spouses of deceased retirees continues until retiree would have reached age 65 or spouse becomes eligible for Medicare.

SPOUSE BENEFITS

Non-Medicare eligible spouses of retirees may receive retiree health care benefits as long as the retiree is eligible. Coverage for spouses of deceased retirees continues until retiree would have reached age 65 or spouse becomes eligible for Medicare.

LIFE INSURANCE

The Library does not provide Life Insurance for Retirees.

OPT OUT

Once opted out, retirees may not return to the Plan at a later date.

NON-MEDICARE AND MEDICARE-ELIGIBLE PROVISIONS

Retirees are required to enroll in Medicare once eligible. Retiree pays Medicare premiums.

DENTAL/VISION COVERAGE

Dental and vision coverage are included in the retiree health insurance plan.

ACTIVE CONTRIBUTIONS

Active employees are not required to contribute towards retiree health care.

This is a brief summary of the City of Grand Rapids Library Retiree Health Care Plan provisions. In the event that any description contained herein differs from the actual eligibility or benefit, the appropriate employee contract or governing document will prevail.

ACTIVE MEMBER DEMOGRAPHIC DATA AS OF JUNE 30, 2013

| Attained Age | Years of Service to Valuation Date | | | | | | | Total No. |
|---------------|------------------------------------|-----|-------|----------|-------|----------|---------|-----------|
| | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30 Plus | |
| 25-29 | | | | | | | | |
| 30-34 | | | | | | | | |
| 35-39 | | | | 1 | | | | 1 |
| 40-44 | | | | 1 | | | | 1 |
| 45-49 | | | | | | | | |
| 50-54 | | | | | | | | |
| 55-59 | | | | | | 1 | | 1 |
| 60-64 | | | | 1 | | 2 | | 3 |
| Totals | | | | 3 | | 3 | | 6 |

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

Age: 53.1 years
Service: 22.8 years

RETIRED MEMBER DEMOGRAPHIC DATA AS OF JUNE 30, 2013

Retired Members

| Attained Age | Number of Retirees | | |
|---------------|--------------------|----------|----------|
| | Male | Female | Total |
| Under 55 | 0 | 0 | 0 |
| 55-59 | 1 | 2 | 3 |
| 60-64 | 1 | 5 | 6 |
| 65 & Over | 0 | 0 | 0 |
| Totals | 2 | 7 | 9 |

Only retirees valued in this report are shown in the exhibits above.

SECTION D
ACTUARIAL COST METHOD
AND ACTUARIAL ASSUMPTIONS

VALUATION METHODS

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

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

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

Financing of Unfunded Actuarial Accrued Liabilities. Unfunded Actuarial Accrued Liabilities (UAAL) were amortized as a level dollar amount. The UAAL were determined using the funding value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL amortization payment is the amount required to fully amortize the UAAL over a 6-year period beginning on the valuation date. This UAAL payment does not reflect any payments expected to be made between the valuation date and the fiscal year for which the contributions in this report have been calculated.

Rates of Investment Return. **3.5% per year**, compounded annually, net of expenses. This rate consists of a real rate of return of 0% plus a long-term rate of wage growth of 3.5% per year. This assumption is used to equate the value of payments due at different points in time.

ACTUARIAL ASSUMPTIONS

The rates of salary increase used for individual members are in accordance with the following table. The assumption is used to project a member's current salary to the salaries upon which future contributions will be based.

| <u>% Increase in Salary at Sample Ages</u> | | | |
|--|------------------------------|----------------------------|-------------------------------|
| <u>Sample Ages</u> | <u>Merit & Seniority</u> | <u>Base (Economic)</u> | <u>Increase Next Year</u> |
| 20 | 4.16% | 3.50% | 7.66% |
| 25 | 2.88% | 3.50% | 6.38% |
| 30 | 1.98% | 3.50% | 5.48% |
| 35 | 1.52% | 3.50% | 5.02% |
| 40 | 1.10% | 3.50% | 4.60% |
| 45 | 0.66% | 3.50% | 4.16% |
| 50 | 0.32% | 3.50% | 3.82% |
| 55 | 0.14% | 3.50% | 3.64% |
| 60 | 0.00% | 3.50% | 3.50% |
| 65 | 0.00% | 3.50% | 3.50% |
| Ref | 92 | | |

Additional Service Based Increase

| <u>Sample Service</u> | |
|---------------------------|-------|
| 1 | 4.00% |
| 2 | 3.00% |
| 3 | 1.75% |
| 4 | 1.75% |
| 5 | 1.75% |
| Ref | 12 |

ACTUARIAL ASSUMPTIONS (CONTINUED)

The mortality tables used to project the mortality experience of plan members is the 1983 Group Annuity Mortality Table setback 3 years for male and 2 years for females. For disabled retirees, the mortality tables are used with a 5-year set forward in ages to reflect the higher expected mortality rates of disabled members. 100% of active member deaths are assumed to be non-duty deaths. Pre-retirement mortality is assumed to be 50% of the 1983 Group Annuity Mortality tables for males and females. No mortality improvement was assumed.

| Sample Ages | Probability of Dying Next Year | | Future Life Expectancy (years) | |
|----------------|-----------------------------------|--------|-----------------------------------|-------|
| | Men | Women | Men | Women |
| 50 | 0.28 % | 0.14 % | 31.90 | 36.81 |
| 55 | 0.48 | 0.21 | 27.42 | 32.10 |
| 60 | 0.71 | 0.34 | 23.13 | 27.48 |
| 65 | 1.11 | 0.58 | 19.02 | 23.02 |
| 70 | 1.98 | 0.97 | 15.23 | 18.76 |
| 75 | 3.34 | 1.85 | 11.92 | 14.81 |
| 80 | 5.48 | 3.45 | 9.08 | 11.40 |
| Ref | #30x1sb3yrs0Unisex | | #31x1sb2yrs0Unisex | |

ACTUARIAL ASSUMPTIONS (CONTINUED)

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

| Retirement Ages | Percent of Eligible Active Members Retiring within Next Year | |
|--------------------|---|-------|
| | Normal | Early |
| 50 | 35 % | 1 % |
| 51 | 35 | 1 |
| 52 | 35 | 1 |
| 53 | 35 | 1 |
| 54 | 35 | 1 |
| 55 | 35 | 1 |
| 56 | 35 | 1 |
| 57 | 35 | 1 |
| 58 | 35 | 1 |
| 59 | 35 | 1 |
| 60 | 35 | 1 |
| 61 | 35 | 1 |
| 62 | 35 | |
| 63 | 35 | |
| 64 | 35 | |
| 65 | 50 | |
| 66 | 60 | |
| 67 | 70 | |
| 68 | 80 | |
| 69 | 90 | |
| 70 | 100 | |
| Ref | 224 | 516 |

ACTUARIAL ASSUMPTIONS (CONTINUED)

Rates of separation from active membership are used to estimate the number of employees at each age that are expected to terminate employment before qualifying for retirement benefits. The withdrawal rates do not apply to members eligible to retire, and do not include separation on account of death or disability.

Sample rates of separation from active employment are shown below:

| Sample Ages | Years of Service | % of Active Members Separating Within Next Year | |
|----------------|---------------------|--|---------|
| | | Males | Females |
| ALL | 0 | 10.00 % | 10.00 % |
| | 1 | 7.00 | 7.00 |
| | 2 | 6.00 | 6.00 |
| | 3 | 5.00 | 5.00 |
| | 4 | 5.00 | 5.00 |
| 25 | 5 & Over | 2.91 | 5.79 |
| 30 | | 2.79 | 5.42 |
| 35 | | 2.58 | 4.71 |
| 40 | | 2.30 | 3.86 |
| 45 | | 1.95 | 2.98 |
| 50 | | 1.36 | 1.92 |
| 55 | | 0.52 | 0.70 |
| 60 | | 0.05 | 0.07 |
| Ref | | 103 | 103 |
| | | 5 | 6 |

ACTUARIAL ASSUMPTIONS (CONCLUDED)

Rates of disability among active members are used to estimate the incidence of member disability in future years. 77% of Library disabilities were assumed to be non-duty related and 23% of disabilities are assumed to be duty related.

| Sample Ages | Percent Becoming Disabled Within Next Year |
|----------------|---|
| 20 | 0.01 % |
| 25 | 0.01 |
| 30 | 0.01 |
| 35 | 0.04 |
| 40 | 0.07 |
| 45 | 0.16 |
| 50 | 0.31 |
| 55 | 0.47 |
| 60 | 0.61 |
| 65 | 0.00 |
| Ref | #38x0.78 |

Health care trend rates used in the valuation were as shown below.

| Year | Medical and Prescription Drugs | Dental and Vision |
|--------------|--------------------------------|-------------------|
| 2014 | 9.0 % | 3.5 % |
| 2015 | 8.5 | 3.5 |
| 2016 | 8.0 | 3.5 |
| 2017 | 7.5 | 3.5 |
| 2018 | 7.0 | 3.5 |
| 2019 | 6.5 | 3.5 |
| 2020 | 6.0 | 3.5 |
| 2021 | 5.5 | 3.5 |
| 2022 | 5.0 | 3.5 |
| 2023 | 4.5 | 3.5 |
| 2024 | 4.0 | 3.5 |
| 2025 | 3.5 | 3.5 |
| 2026 | 3.5 | 3.5 |
| 2027 & Later | 3.5 | 3.5 |

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

| | |
|-----------------------------|---|
| Decrement Operation: | Disability and mortality decrements do not operate during the first five years of service. Disability also does not operate during retirement eligibility. |
| Decrement Timing: | Decrements of all types are assumed to occur mid-year. |
| Eligibility Testing: | Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur. |
| Marriage Assumption: | 100% of males and females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses for active member valuation purposes. |
| Medicare Coverage: | Assumed to be available for all covered employees on attainment of age 65. |
| Children: | Children of active employees were assumed to not receive coverage upon retirement of the employee. |
| Election Percentage: | It was assumed that 100% of retirees would choose to receive retiree health care benefits through the Library. Of those assumed to elect coverage, 35% of retirees were assumed to elect two-person coverage, if eligible. For those that elect two-person coverage, it was assumed that coverage would continue to the spouse upon death of the retiree 100% of the time, if eligible. |
| Retiree Opt-Outs: | Retirees and spouses who have opted out of coverage are assumed to not re-enroll. |

SECTION E

GASB DISCLOSURES

This information is presented in draft form for review by the Plan and/or Library auditor. Please let us know if there are any items that the auditor changes so that we may maintain consistency with the Plan and/or Library financial statements.

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

| | |
|---------------------------------------|-------------------------------------|
| Valuation Date | June 30, 2013 |
| Actuarial Cost Method | Individual Entry Age Normal Cost |
| Amortization Method | Level Dollar Closed |
| Remaining Amortization Periods | 6 Years |
| Asset Valuation Method | N/A |
| Actuarial Assumptions: | |
| Discount Rate | 3.5% Per Year |
| Projected Salary Increases | 3.50% - 12.00% |
| Valuation Health Care Cost Trend Rate | 9% in 2014, grading to 3.5% in 2025 |

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

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 6/30/2010 | \$ - | \$ 1,042,078 | \$ 1,042,078 | 0.00% | \$ 387,393 | 269% |
| 6/30/2013 | - | 807,530 | 807,530 | 0.00% | N/A | N/A |

Schedule of Employer Contributions

| Valuation Date | Fiscal Year Ending | Annual Required Contribution | Percentage of Annual OPEB Cost Contributed | Actual Contributed |
|-------------------|--------------------------|------------------------------------|--|-----------------------|
| 6/30/2010 | 6/30/2011 | \$137,896 | N/A | N/A |
| | 6/30/2012 | 137,514 | N/A | N/A |
| | 6/30/2013 | 137,333 | N/A | N/A |
| 6/30/2013 | 6/30/2014 | 163,038 | | |
| | 6/30/2015 | 161,624 | | |
| | 6/30/2016 | 160,724 | | |

N/A: Not Available

APPENDIX A
OVERVIEW

GASB BACKGROUND

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

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

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

GASB Statement No. 45

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

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

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

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

GASB BACKGROUND (CONCLUDED)

Paragraph 13g. of Statement No. 45 states:

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

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

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

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

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

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

GASB Statement No. 43

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

OPEB PRE-FUNDING

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

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

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

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

APPENDIX B

GLOSSARY

GLOSSARY

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

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

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

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

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

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

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

GLOSSARY (CONCLUDED)

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

Reserve Account - An account used to indicate that funds have been set aside for a specific purpose and is 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.



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November 27, 2013

Mr. John Baar
Human Resources Manager
City of Grand Rapids Main Library
111 Library Street N.E.
Grand Rapids, Michigan 49503

Re: City of Grand Rapids Library Other Postemployment Benefits Valuation

Dear Mr. Baar:

Enclosed are 15 copies of our report of the actuarial valuation as of June 30, 2013 of the City of Grand Rapids Library Other Postemployment Benefits.

Respectfully submitted,

James D. Anderson, FSA, MAAA

JDA:bd
Enclosures