

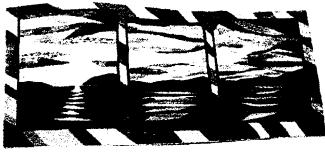


**K**ENNEY **C**ONSULTING, L.L.C.

**LANE COUNTY  
POST-EMPLOYMENT MEDICAL PLAN**

ACTUARIAL VALUATION  
AS OF JUNE 30, 2008





# KENNEY CONSULTING, L.L.C.

James A. Kenney  
Marge Pryle  
Betty Legardy  
David B. Berry  
Landry Wildwind

Consulting Actuaries

2115 Milvia St., 4<sup>th</sup> Floor  
Berkeley, CA  
94704

(510) 644-6900  
FAX: (510) 644-6908  
Kenney-Consulting.com

September 26, 2008

Ms. Karen Artiaco  
Risk Manager  
Lane County Administration  
Public Service Building  
125 E. 8<sup>th</sup> Avenue  
Eugene, Oregon 97401

Dear Karen:

At your request, we have carried out an actuarial valuation of the Post-Employment Medical Plan ("the Plan") for retirees and active participants for the fiscal year ending June 30, 2008. The valuation was made to establish the liabilities and costs associated with the Plan. Our valuation also reflects the provisions of GASB 45.

The valuation was based on personnel statistics concerning active employees, retired participants and their covered dependents, as well as information concerning post-retirement medical premiums, furnished by you. It is also based on information you provided concerning Plan assets as of June 30, 2008. As is customary practice, we have relied on this data in performing our valuation.

## **Summary of Results**

We developed annual costs of your Plan under the Projected Unit Credit cost method. The annual cost we developed for the 2007 fiscal year is \$3,384,152, or 4.88% of payroll. The Plan's accrued liability under the unit credit method was \$65,208,658. About 62% of the accrued liability is associated with currently retired participants and their dependents.

## **The Plan**

Lane County's Post-Employment Medical Plan provides for payment of medical insurance premiums for eligible retirees under age 65, and for payment of Medicare Part B and Supplemental premiums for Medicare eligible retirees.

Benefits under the Plan are limited to employees employed prior to certain dates who meet certain service and age requirements, described in more detail in Schedule 6 of our report. The age requirement is tied to eligibility to retire under PERS, and is generally age 55. For Police and Fire employees, this age is 50.

The Plan is closed to new employees, and to employees hired after the relevant dates shown in Schedule 6.

Eligible retirees may purchase dependent coverage for the pre-Medicare coverage at the same premium rates paid by Lane County for active employees.

Employees who do not meet the requirements for coverage under the Plan may purchase medical coverage on a "self-pay" basis under Oregon HB2430. Eligible employees who meet the service requirements but not the age requirements may also self-pay until they have reached the appropriate age, at which time they will be covered by the Plan.

Eligible retired participants do not make any contribution towards the cost of coverage under the Plan.

### **Actuarial Assumptions**

We have assumed that premiums paid after July 1, 2008 would be 10% higher than those paid during the Fiscal Year ending June 30, 2008, with premiums in future years increasing by 9.5%, 9% and so forth, grading down to a long-term rate of 6% by 2016. This assumption represents a considerable strengthening of the healthcare inflation rates used in your previous valuation, which assumed an ultimate rate of 4%.

The interest rate assumption used to discount future benefit payments was 4.5%, unchanged from your prior valuation. Under GASB 45, actuaries are directed to use a discount rate that reflects the employer's own rate of return on its general funds. You have informed us that you expect to earn 4.5% on these funds. We have also included as Schedule 3, a comparison showing costs based on a 6% discount rate, as would be justified under GASB 45 if Lane County establishes a trust solely for payment of the benefits under the Plan.

The mortality table used in developing plan liabilities was the 1983 Group Annuity Table.

Our other assumptions are detailed in Schedule 4.

The results shown in this report have been developed on the basis of actuarial assumptions which are considered to be reasonable and within the "best-estimate range" as described by the Actuarial Standards of Practice. Other actuarial assumptions could also be considered to be reasonable and within the best-estimate range. Thus, reasonable results differing from those presented in this report could have been developed by selecting different points within the best-estimate ranges for various assumptions.

### **Valuation Method**

The costs of the Post-Employment Medical Plan have been developed under the Projected Unit Credit cost method. This is an acceptable cost method under GASB 45.

Under this method, the present value of future premiums payable on behalf of currently retired participants is determined, and added to the Actuarial Accrued Liability for eligible active employees. The Actuarial Accrued Liability for eligible active employees is equal to the present value of all projected benefits payable on their behalf, multiplied by their service rendered to the valuation date divided by their total service projected to retirement. Projected benefits for both active and retired participants have been adjusted to include an assumed "implicit subsidy" under GASB 45, and (for active employees) to include the possibility of a spouse electing to "self-pay" premiums under the terms of the Plan. In addition, the implicit subsidy for ineligible active employees has been valued, based on an assumed utilization rate.

The Projected Unit Credit cost method also produces a Normal Cost (or "service cost") equal to one year's accrual of benefits.

The Unfunded Accrued Liability is amortized over a 30-year period over the present value of future payroll assuming a stationary open group of employees, and the result is added to the Normal Cost to produce the annual required contribution ("ARC") for the year.

We have not established a net OPEB obligation at transition. In the future, the OPEB cost will consist of the ARC, an interest adjustment based on any outstanding net OPEB obligation and an "adjustment" to the ARC. The net OPEB obligation in future years will equal the cumulative difference between all annual OPEB costs and all employer contributions.

As of June 30, 2008 the unfunded Accrued Liability was \$56,746,612. This amount was amortized over 30 years as a level percent of pay, which resulted in an amortization cost of \$2,032,169 due as of June 30, 2008.

The normal cost for the year of the valuation is equal to the present value for eligible active employees of their projected benefits divided by their years of projected service at retirement, times the salary expected to be earned during the valuation year. For your Plan, the Normal Cost was \$1,351,983, due as of June 30, 2008.

The total of the Normal Cost and the amortization payment is \$3,384,152, which is the Annual Required Contribution under this method, as shown on Schedule 2. We have also included a comparison to costs using a discount rate of 6%, as shown on Schedule 3.

### **Recognition of Implicit Subsidy**

GASB 45 requires that determination of liabilities and costs for a post-retirement medical plan include a recognition of an “implicit subsidy” where medical premiums are based on the combined experience of both active and retired participants. As a general rule, healthcare claims costs are expected to increase as a function of age. In our valuation we used a claims cost increase for current retirees under age 65 of 2½% per year of age to determine this subsidy. Projected premiums for future retirees were loaded 33.3% above the projected premium level prevailing at their assumed retirement date, to recognize this implicit subsidy. Premiums for retirees under age 65 were increased on an age-based approach for the same reason.

This procedure resulted in hypothetical premiums used to value benefits payable to current retirees, exceeding the actual premiums payable on their behalf. For the fiscal year ending in 2008, the amount of this excess was \$759,305, or roughly \$203 per month for each retiree or dependent under age 65. This figure represents the amount of the retiree subsidy in the premiums paid on behalf of active participants by Lane County. Presumably this amount should be used to offset your actual active premium expense, since it is already included in your Annual Required Contribution for the Post-Employment Medical Plan.

### **Plan Participants**

Our valuation included 1429 active employees, 682 retired employees or spouses of retired employees. Your prior valuation included 1414 active employees and 558 retired employees or spouses of retired employees.

### **Comparison of Results With Prior Study by Clark Consulting**

The table below compares the liabilities and annual costs of the plan developed in the current valuation, with those developed by Clark Consulting in its study of October 24, 2006. Both values were determined using a discount rate of 4½%; however our healthcare inflation rate assumption is considerably higher than that assumed in the Clark valuation.

	Current Valuation	2004 Clark GASB 45 Study
	_____	_____
Accrued Liability	\$ 65,210,000	\$ 67,330,000
Total Annual Cost	\$ 3,384,000	\$ 3,261,000

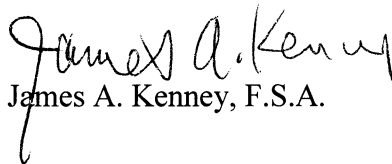
Ms. Karen Artiaco  
Post-Employment Medical Plan  
Actuarial Valuation as of June 30, 2008

-5-

September 26, 2008

The fact that our results are similar to those developed in your previous valuation, despite the strengthened assumption regarding healthcare inflation, is primarily due to the fact that your Plan covers a closed group, and many retirees who were under age 65 in the prior valuation are now Medicare-eligible. This in turn means the liability associated with their benefits is lower, due to their lower premiums under Medicare.

Respectfully submitted,  
Kenney Consulting, LLC

A handwritten signature in cursive script that reads "James A. Kenney". The signature is written in black ink and is positioned above the printed name.

James A. Kenney, F.S.A.

JAK/mcp  
Enclosures

**LANE COUNTY  
POST-EMPLOYMENT MEDICAL PLAN**

**TABLE OF SCHEDULES**

	<u>Schedule</u>
Actuarial Accrued Liability Under The Projected Unit Credit Funding Method	1
Annual Cost Under The Projected Unit Credit Funding Method	2
Comparison of Alternative Discount Rates	3
Actuarial Assumptions Used in Determining Costs as of June 30, 2008	4
Cash Flow Projections	5
Plan Provisions	6

**LANE COUNTY  
POST-EMPLOYMENT MEDICAL PLAN**

**Actuarial Accrued Liability Under  
The Projected Unit Credit Funding Method  
as of June 30, 2008**

1. Present Value of Future Premiums for Retired Employees	Total \$ 40,109,625
2. Actuarial Accrued Liability for Future Premiums Payable for Active Employees and Dependents During Retirement	\$ 25,099,033
3. Total Actuarial Accrued Liability	\$ 65,208,658
4. Assets as of June 30, 2008	<u>(8,444,046)</u>
Unfunded Actuarial Accrued Liability	\$ 56,764,612
5. Payment to Amortize Total Unfunded Actuarial Accrued Liability over 30 years as level percent of payroll, due June 30, 2008	\$ 2,032,169

**LANE COUNTY  
POST-EMPLOYMENT MEDICAL PLAN**

**Annual Cost Under  
The Projected Unit Credit Funding Method  
as of June 30, 2008**

1. Normal Cost Due June 30, 2008	\$ 1,351,983
2. Payment Toward Actuarial Accrued Liability	<u>2,032,169</u>
3. Annual Cost for Fiscal Year Ending 2008, due June 30, 2008	\$ 3,384,152
4. Covered Payroll	\$ 69,379,562
5. Annual Cost as % of Payroll	4.88%

**LANE COUNTY  
POST-EMPLOYMENT MEDICAL PLAN**

**Comparison of Alternative Discount Rates**

	4½%	6%
1. Accrued Liability		
Active Employees	\$ 40,109,625	\$ 34,377,055
Retired Employees	25,099,033	18,903,289
Total	\$ <u>65,208,658</u>	\$ <u>53,280,344</u>
2. Unfunded Accrued Liability	\$ 56,764,612	\$ 44,836,298
3. Annual Cost	\$ 3,384,152	\$ 2,971,439
4. Percent of Pay	4.88%	4.28%

**LANE COUNTY  
POST-EMPLOYMENT MEDICAL PLAN**

**Actuarial Assumptions Used in Determining Costs  
July 1, 2008**

Interest:	4.5%	
Payroll Growth Rate	4.0%	
Mortality Prior to Retirement:	1983 Group Annuity Table of Mortality	
Health Care Inflation Rate:	2008	10.0%
	2009	9.5%
	2010	9.0%
	2011	8.5%
	2012	8.0%
	2013	7.5%
	2014	7.0%
	2015	6.5%
	2016	6.0%
Premiums:	Pre -65:	\$493.41/month
	Medicare Eligible:	\$171.40/month
Retirement Rates:	<u>Age</u>	<u>Rate</u>
	55-60	5%
	61	10%
	62	10%
	63	20%
	64	20%
	65	100%
Termination Rates:	<u>Age</u>	<u>Rate</u>
	25	7.90%
	30	7.67%
	35	7.31%
	40	6.72%
	45	5.94%
	50	4.93%
Proportion of retired employees with covered spouses:		45%
Age of Spouse:	Same age as the employee.	
Self-Pay Utilization Rate:		20%

**LANE COUNTY  
POST-EMPLOYMENT MEDICAL PLAN**

**Cash Flow Projections**

Year	Expected Medical Net Cash Outflow		
	Retirees	Actives	Total
2008	\$ 2,968,041	\$ 115,678	3,083,719
2009	3,039,639	247,931	3,287,570
2010	3,046,385	414,296	3,460,681
2011	2,880,375	608,875	3,489,250
2012	2,761,388	813,715	3,575,103
2013	2,604,287	991,036	3,595,323
2014	2,494,631	1,240,805	3,735,436
2015	2,418,655	1,439,903	3,858,558
2016	2,283,759	1,612,980	3,896,739
2017	2,190,280	1,742,161	3,932,441
2018	2,131,704	1,900,605	4,032,309

Note: Projected cash flows include implicit subsidy under GASB 45.

**LANE COUNTY  
POST-EMPLOYMENT MEDICAL PLAN**

**Plan Provisions**

**Participant Groups, Eligibility Requirements, and Benefit Structure:**

<b>Group</b>	<b>Count</b>	<b>Description</b>	<b>Retirement Age Eligible</b>	<b>Service Requirement</b>	<b>Pre-Age 65 Benefit</b>	<b>Post-Age 65 Benefit</b>
1,1A	150	Hired before 03/15/1991	55	10	Group Premiums	Medicare Supplement & Part B Premiums
Police	15	Hired before 03/15/1991	50	10	Group Premiums	Medicare Supplement & Part B Premiums
2	17	Hired before 07/01/1987	50	10	Group Premiums	Medicare Supplement & Part B Premiums
3	252	Hired between 07/01/1987 and 07/01/1997	55	20	Group Premiums	Medicare Supplement & Part B Premiums
4	55	Hired between 07/01/1987 and 07/01/1993	50	20	Group Premiums	Medicare Supplement & Part B Premiums
Ineligible	940	All other actives not in above groups	55	10	Self-Pay Group Premium	None
R1	339	Retirees over Age 65	NA	NA	NA	Medicare Supplement & Part B Premiums
R2	294	Retirees under Age 65	NA	NA	Group Premiums	Medicare Supplement & Part B Premiums
R3	49	Self-Paying Participants	NA	NA	Self-Pay Group Premiums	None