

**CITY OF DEARBORN RETIREE HEALTH CARE PLAN
HEALTH CARE PREMIUM COVERAGES DURING RETIREMENT
JUNE 30, 2010 ACTUARIAL VALUATION REPORT**

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March 3, 2011

Mr. James J. O'Connor
Finance Director
City of Dearborn Retirement Systems
4500 Maple, City Hall
Dearborn, Michigan 48126

Dear Jim:

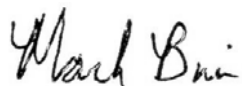
Submitted in this report are the results of an Actuarial Valuation of the assets and benefit values associated with the employer financed retiree health benefits provided by the City of Dearborn. The date of the valuation was June 30, 2010 effective for the fiscal years July 1, 2011 to June 30, 2012 and July 1, 2012 to June 30, 2013. This report was prepared at the request of the City of Dearborn.

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 City's financial reporting requirements may produce significantly different results. This report may be provided to parties other than the City of Dearborn only in its entirety and only with the permission of the City of Dearborn.

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

To the best of our knowledge, this report is complete and accurate and was made in accordance with generally recognized actuarial methods. All of the undersigned are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,



Mark Buis, FSA, MAAA
Valuation Actuary



Curtis Powell, EA, MAAA
Valuation Actuary

MB/CP/BM:mrb

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Annual Required Contribution

This report presents the annual expense required to be recognized by the plan sponsor for purposes of complying with the accounting requirements of Government Accounting Standards Board Statement No. 45.

The Annual Required Contribution (ARC) for the fiscal year beginning July 1, 2011 is \$13,046,876. In the first year GASB Statement No. 45 is adopted, the annual OPEB cost required to be disclosed on the employer's financial statements is equal to the ARC. Actual premiums paid on behalf of retirees may be treated as employer contributions in relation to the ARC and act to reduce the Net OPEB Obligation (NOO).

For additional detail please see Section B of the report.

Additional OPEB Reporting Requirements

In addition to the annual OPEB cost described above, employers will have to disclose a Net OPEB Obligation (or asset). The Net OPEB Obligation is the cumulative difference between annual OPEB costs and annual employer contributions in relation to the ARC, accumulated from the implementation of Statement No. 45. The Net OPEB Obligation is zero as of the beginning of the fiscal year that Statement No. 45 is implemented, unless the employer chooses to recognize a beginning balance.

The requirements for determining the employer's contributions in relation to the ARC are described in paragraph 13 g. of Statement No. 45. Additional information required to be disclosed in the employer's financial statements is detailed in paragraphs 24 through 27 of Statement No. 45.

See Section F of this report for additional accounting information.

EXECUTIVE SUMMARY

Liabilities and Assets

The present value of all benefits expected to be paid to current plan members as of June 30, 2010 is \$224,805,377. \$101,530,659 of this amount is attributable to current active members, of which \$68,723,063 is allocated to service already rendered by this group and \$32,807,596 is allocated to future service yet to be rendered. As of June 30, 2010, there is \$35,674,450 in valuation assets available to offset the liabilities of the plan.

The funded status of the plan, which is the ratio of plan assets to actuarial accrued liability, as of June 30, 2010 is 18.6%.

SECTION A
VALUATION RESULTS

**DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTIONS
FOR THE OTHER POST EMPLOYMENT BENEFITS
FISCAL YEARS BEGINNING JULY 1, 2011 AND JULY 1, 2012**

Contributions for	Development of the Annual Required Contribution for July 1, 2011 - June 30, 2013		
	General	Police & Fire	Total
Total Normal Cost	\$ 2,047,826	\$ 1,859,767	\$ 3,907,593
Annual Active Member Contribution	0	0	0
Employer Normal Cost	2,047,826	1,859,767	3,907,593
Amortization of Unfunded Actuarial Accrued Liabilities (Amortized over 26 years)	4,374,968	4,764,315	9,139,283
Annual Required Contribution (ARC) for the Fiscal Year Beginning July 1, 2011	\$ 6,422,794	\$ 6,624,082	\$13,046,876
Projected Payroll for the Fiscal Year Beginning July 1, 2011	\$24,063,759	\$24,121,489	\$48,185,248
ARC as a Percentage of Projected Payroll	26.69%	27.46%	27.08%
ARC per Active Participant	\$ 15,077	\$ 21,231	\$ 17,679
Projected Payroll for the Fiscal Year Beginning July 1, 2012	\$24,966,150	\$25,026,044	\$49,992,194
ARC for the Fiscal Year Beginning July 1, 2012	\$ 6,663,465	\$ 6,872,152	\$13,535,617

The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll over a period of 26 years. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with the GASB requirements. Payroll was assumed to grow at 3.75% per year and we assumed the City will make contributions which are approximately equal to the full ARC.

**DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
AS OF JUNE 30, 2010**

	General	Police & Fire	Total
A. Present Value of Future Benefit			
1. Retirees and Beneficiaries	\$ 54,415,948	\$ 66,831,366	\$121,247,314
2. Vested Terminated Members	2,012,234	15,170	2,027,404
3. Active Members	51,180,706	50,349,953	101,530,659
Total Present Value of Future Benefits	\$107,608,888	\$117,196,489	\$224,805,377
B. Present Value of Future Normal Cost	12,911,110	19,896,486	32,807,596
C. Present Value of Future Contributions from Current Active and Retired Members.	0	0	0
D. Actuarial Accrued Liabilities (AAL)	\$94,697,778	\$ 97,300,003	\$191,997,781
E. Actuarial Value of Assets (AVA)	19,865,919	15,808,531	35,674,450
F. Unfunded Actuarial Accrued Liabilities (UAAL)	\$74,831,859	\$ 81,491,472	\$156,323,331
G. Funded Percent	21.0%	16.2%	18.6%

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 post-employment benefits is the rate of return on Plan assets. Higher assumed investment returns will result in a lower ARC. Lower expected returns will tend to increase the computed ARC. Based on information from the plan sponsor we have calculated the liability and the resulting ARC using an assumed long term rate of investment return of 7.25%. If the City chooses to pre-fund with contributions less than the ARC (or not pre-fund at all), GASB requires the use of a lower rate of return on assets. Use of such an interest rate would considerably increase the ARC and the net OPEB obligation that is disclosed on the employers' financial statement.

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

COMMENT C: As discussed in Comment A, the ARC shown in this report has been calculated assuming that approximately the full ARC will be contributed each year. The ARC is expected to increase at the same rate as the projected increase in active member payroll (3.75% per year). If an amount materially less than the full ARC is contributed, different assumptions would have to be used that would produce a higher ARC. Shown below are results under 2 scenarios: 1) The City pays benefits on a pay-as-you-go basis and therefore, must calculate liabilities using a lower interest rate, and 2) The City contributes the full ARC each year and proceeds using a valuation rate of 7.25%. If the City's policy is to contribute an amount less than the full ARC but more than a pay-as-you-go basis, GASB would allow an intermediate rate generating intermediate results.

Funding Policy	Pay-as-You-Go	Full ARC
Assumed Rate of Return	4.00%	7.25%
General		
ARC (\$)	\$ 8,979,242	\$ 6,422,794
ARC (%)	37.31%	26.69%
Police & Fire		
ARC (\$)	\$ 9,491,152	\$ 6,624,082
ARC (%)	39.35%	27.46%
Total		
ARC (\$)	\$18,470,394	\$13,046,876
ARC (%)	38.33%	27.08%

COMMENTS

COMMENT D: GASB No. 45 stipulates that Plan Assets must be placed in a trust or equivalent arrangement that meet the following criteria:

- Employer contributions to the Plan are irrevocable
- Assets are dedicated to providing benefits to retirants and their beneficiaries
- Assets are legally protected from creditors

Our calculations assume these criteria have been met. Otherwise, assets cannot be counted in our calculations and the Annual Required Contributions may be higher than those shown.

COMMENT E: Legislative changes due to the Patient Protection and Affordable Care Act relating to retiree healthcare benefits have been reflected to the extent they have already been implemented in the Plan.

SECTION B

RETIREE PREMIUM RATE DEVELOPMENT

RETIREE PREMIUM RATE DEVELOPMENT

Initial premium rates were developed for the two classes of retirees (pre-65 and post-65). The fully-insured rates provided by the City of Dearborn were utilized to determine the appropriate premium rates. The pre-65 fully-insured premiums are blended rates based on the combined experience of active and pre-65 retired members; therefore, there is an implicit employer subsidy for the 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 per capita cost for the pre-65 retirees is developed by adjusting the demographic differences between the active employees and retirees to reflect this implicit rate subsidy for the retirees. For the post-65 retirees, the fully-insured premium rate is used as the basis of the initial per capita cost without adjustments since the rate reflects the demographics of the post-65 retiree group. All Medicare retirees in BCBS plans are enrolled in the Medicare Advantage for Medical. For their Rx coverage, they get the prescription drug benefit that corresponds to their BCBS suffix.

For the current active employees, different benefits are available upon retirement since some plans are closed to future retirees. We have developed separate premium rates for future retirees in order to reflect the benefit differences.

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.

RETIREE PREMIUM RATE DEVELOPMENT

The combined monthly one-person medical, and drug premiums at select ages are shown below.

For current retirees:


For Those Not Eligible for Medicare		
Age	Male	Female
40	\$ 361.29	\$ 566.04
50	664.11	752.48
60	1,090.43	1,048.14
64	1,269.21	1,176.43

For Those Eligible for Medicare		
Age	Male	Female
65	\$ 424.91	\$ 391.29
75	544.13	482.90
85	606.75	532.69

For future retirees:

For Those Not Eligible for Medicare		
Age	Male	Female
40	\$ 341.02	\$ 534.29
50	626.85	710.26
60	1,029.25	989.34
64	1,198.00	1,110.43

For Those Eligible for Medicare		
Age	Male	Female
65	\$ 371.81	\$ 342.39
75	476.13	422.56
85	530.93	466.13



John Mallows, FSA, MAAA
Health Actuary

SECTION C

SUMMARY OF BENEFIT PROVISIONS

CITY OF DEARBORN PUBLIC RETIREE HEALTH CARE PLAN

SUMMARY OF BENEFITS AS OF JUNE 30, 2010

PLAN PARTICIPANTS

Employees of the City of Dearborn are eligible to receive retiree health care benefits.

Except:

E & A: employees hired on or after July 1, 2002.

Communication Supervisors: hired on or after July 1, 2001.

Court: employees hired on or after January 1, 2002.

NORMAL RETIREMENT BENEFITS

Normal retirement eligibility conditions for retiree health care benefits are as follows:

Health Care Benefit Eligibility Conditions

Police & Fire 25 years of service or 10 years of service and 55 years old. New Hires: Police effective April 2009 and Fire effective May 2009 are eligible at 25 years of service and 50 years old.

General employees 25 years of service and 55 years old or 10 years of service and 60 years old.

Dispatchers 25 years of service and 50 years old or 10 years of service and 60 years old.

Health Care Benefit Provided by Plan

Member: City pays 100% of the premium.

Spouse & Dependents: City pays 100% of premium as long as the spouse continues to receive a pension and dependents are eligible.

EARLY RETIREMENT BENEFITS

Members and eligible dependents retiring under early retirement conditions are eligible for retiree health care as and if/when negotiated.

DEFERRED RETIREMENT BENEFITS

Deferred retirement eligibility conditions for retiree health care benefits are as follows:

Health Care Benefit Eligibility Conditions

Police & Fire: benefit commences when member would have been eligible for normal retirement until Jan. 1, 1999 for non supervisory police and July 1, 1998 for Sergeants & Lieutenants and Fire. Thereafter no health care for deferred retirees.

General employees: Benefit commences when deferred retiree with 25 or more years of service attains age 55 or 50 years old for dispatchers. 25 or more years of service required to obtain deferred retiree health care.

Health Care Benefit Provided by Plan

Member: City pays 100% of the premium.

Spouse & Dependents: City pays 100% of premium as long as the spouse continues to receive a pension and dependents are eligible.

CITY OF DEARBORN PUBLIC RETIREE HEALTH CARE PLAN

SUMMARY OF BENEFITS AS OF JUNE 30, 2010

DUTY DEATH-IN-SERVICE RETIREMENT BENEFITS

Duty Death retirement eligibility conditions for retiree health care benefits are as follows:

Health Care Benefit Eligibility Conditions

Benefit commences immediately.

Health Care Benefit Provided by Plan

Spouse & Dependents: City pays 100% of premium as long as the spouse continues to receive a pension and dependents are eligible.

NON-DUTY DEATH-IN-SERVICE RETIREMENT BENEFITS

Non-Duty Death retirement eligibility conditions for retiree health care benefits are as follows:

Health Care Benefit Eligibility Conditions

Benefit commences immediately.

Health Care Benefit Provided by Plan

Spouse & Dependents: City pays 100% of premium as long as the spouse continues to receive a pension and dependents are eligible.

DUTY DISABILITY RETIREMENT BENEFITS

Duty Disability retirement eligibility conditions for retiree health care benefits are as follows:

Health Care Benefit Eligibility Conditions

Benefit commences immediately.

Health Care Benefit Provided by Plan

Member: City pays 100% of premium.

Spouse & Dependents: City pays 100% of premium as long as the spouse continues to receive a pension and dependents are eligible.

CITY OF DEARBORN PUBLIC RETIREE HEALTH CARE PLAN

SUMMARY OF BENEFITS AS OF JUNE 30, 2010

NON-DUTY DISABILITY RETIREMENT BENEFITS

Non-Duty Disability retirement eligibility conditions for retiree health care benefits are as follows:

Health Care Benefit Eligibility Conditions

Fire: any age with 25 years of service.

Non-Supervisory Police: Effective July 1, 2009, non-duty disability retirees, spouse and eligible dependents will have the premium paid in accordance with the schedule below:

Lieutenants and Sergeants: Effective July 1, 2005, non-duty disability retirees, spouse and eligible dependents will have the premium paid in accordance with the following schedule:

<u>Years of Service Completed</u>	<u>Percent Paid by City</u>
0 through 9 years	0%
10 through 14 years	40%
15 through 19 years	60%
20 through 24 years	80%
25 years and over	100%

General employees: 25 years of service and 55 years old or 10 years of service and 60 years old. Benefit commences when member would have been eligible for normal retirement.

Dispatchers: 25 years of service and 50 years old. Benefit commences when member would have been eligible for normal retirement.

Health Care Benefit Provided by Plan

Member: City pays 100% of the premium.

Spouse & Dependents: City pays 100% of the premium as long as the spouse continues to receive a pension and dependents are eligible.

BENEFITS FOR SPOUSES OF RETIRED EMPLOYEES

Spouses of retired employees are eligible to receive retiree health care benefits. Coverage continues to surviving spouses of deceased retirees. All eligible spouses must be spouse at time of retirement.

NON-MEDICARE AND MEDICARE-ELIGIBLE PROVISIONS

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

VISION COVERAGE

Health Care Benefit Eligibility Conditions

Members who retire are not eligible for vision coverage.

CITY OF DEARBORN PUBLIC RETIREE HEALTH CARE PLAN
SUMMARY OF BENEFITS AS OF JUNE 30, 2010

DENTAL COVERAGE

Health Care Benefit Eligibility Conditions

Members & dependents may receive dental benefits.

Health Care Benefit Provided by Plan

Member: must pay 100% of premium.

Spouse & Dependents: must pay 100% of premium.

LIFE INSURANCE COVERAGE

Retiree voluntarily elects and pays a monthly fee for \$2,500 of life insurance coverage.

RETIREE OPT-OUT

Retirees who decide to opt-out of the health care plan will be eligible to receive \$1,250 (single employee), \$2,000 (2 person) or \$2,500 (family) in any year they receive coverage from another source up until age 65 for Lieutenants & Sergeants and age 66 for all other retirees.

SECTION D
SUMMARY OF PARTICIPANT DATA

POST-RETIREMENT PREMIUM COVERAGES
MEMBERS INCLUDED IN JUNE 30, 2010 VALUATION

Active

Active Members	Number	Average Attained Ages
General	426	49.4 years
Police & Fire	312	39.0 years
Total	738	

Terminated Vested

Terminated Vested	Number
General	13
Police & Fire	1
Total	14

Retirees & Beneficiaries

Retired Members	Number	Average Age at Retirement
General	562	58.0 years
Police & Fire	391	50.5 years
Total*	953	

* Includes 156 participants that have opted out of post-retirement health coverage or who are eligible for pension benefits but not health benefits.

SECTION E
GASB ACCOUNTING SCHEDULE

GASB STATEMENT NO. 43 AND NO. 45
REQUIRED SUPPLEMENTARY INFORMATION

Valuation Date	June 30, 2010
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level Percent Closed
Remaining Amortization Periods	26 Years
Asset Valuation Method	Market
Actuarial Assumptions:	
Investment Rate of Return	7.25%
Projected Salary Increases	3.75% - 7.8%
Healthcare Cost Trend Rate	9% Initial 3.75% Ultimate

SECTION F
ACTUARIAL COST METHODS AND
ACTUARIAL ASSUMPTIONS

VALUATION METHODS AND ASSUMPTIONS

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 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 (full funding credit if assets exceed liabilities) were amortized by level (principal & interest combined) percent-of-payroll contributions over a reasonable period of future years.

The rate of investment return was 7.25% a year, compounded annually net after administrative expenses.

The assumed real return is the rate of return in excess of price inflation. Considering other assumptions used in the valuation, the 7.25% nominal rate translates to a net real return of 3.5% a year.

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

Sample Ages	Base Economic	Merit and Seniority					TOTAL				
		General Operative	General Non-Operative	Fire	Police	MERS Pol/Fire	General Operative	General Non-Operative	Fire	Police	MERS Pol/Fire
20	3.75 %	4.16 %	4.80 %	3.50 %	3.50 %	8.40 %	7.91 %	8.55 %	7.25 %	7.25 %	12.15 %
25	3.75	2.88	3.30	3.50	3.50	5.33	6.63	7.05	7.25	7.25	9.08
30	3.75	1.98	1.60	2.90	2.60	3.26	5.73	5.35	6.65	6.35	7.01
35	3.75	1.52	1.20	2.20	1.10	2.05	5.27	4.95	5.95	4.85	5.80
40	3.75	1.10	0.90	1.70	0.50	1.30	4.85	4.65	5.45	4.25	5.05
45	3.75	0.66	0.80	1.20	0.50	0.81	4.41	4.55	4.95	4.25	4.56
50	3.75	0.32	0.60	0.70	0.50	0.52	4.07	4.35	4.45	4.25	4.27
55	3.75	0.14	0.50	0.50	0.50	0.30	3.89	4.25	4.25	4.25	4.05
60	3.75	0.00	0.40	0.50	0.50	0.00	3.75	4.15	4.25	4.25	3.75
Ref:		92	131	223	224	214					

The payroll growth rate for financing Unfunded Actuarial Accrued Liabilities was assumed to be 3.75% per year.

VALUATION METHODS AND ASSUMPTIONS

General Group:

The mortality table was the 1994 Group Annuity Mortality Table.

Sample Attained	Single Life Retirement Values			
	Present Value of \$1 Monthly for Life		Future Life Expectancy (years)	
	Men	Women	Men	Women
Ages				
45	\$151.14	\$156.35	35.38	39.68
50	144.28	151.03	30.69	34.89
55	135.55	143.96	26.15	30.17
60	124.83	134.87	21.83	25.59
65	112.49	124.03	17.84	21.28
70	99.13	111.62	14.29	17.30
75	84.57	96.94	11.12	13.60
80	69.37	80.88	8.37	10.31
Ref:	261 x 1.00	262 x 1.00		

This assumption is used to measure the probabilities of each benefit payment being made after retirement. For active members, the probabilities of dying before retirement were based upon 60% of the same mortality table as members dying after retirement and the probabilities of each benefit payment being made after retirement.

For disabled retirees, the regular mortality tables are set forward 10 years in ages to reflect impaired longevity.

VALUATION METHODS AND ASSUMPTIONS

MERS Police and Fire Defined Benefit Group:

The mortality table was the 1994 Group Annuity Mortality Table blended 50% male/50% female.

Sample Attained	Single Life Retirement Values			
	Present Value of \$1 Monthly for Life		Future Life Expectancy (years)	
	Ages	Men	Women	Men
45	\$153.62	\$153.62	37.34	37.34
50	147.49	147.49	32.60	32.60
55	139.53	139.53	27.98	27.98
60	129.56	129.56	23.53	23.53
65	117.90	117.90	19.40	19.40
70	104.97	104.97	15.66	15.66
75	90.33	90.33	12.24	12.24
80	74.73	74.73	9.25	9.25
Ref:	261 x 1.00	262 x 1.00		

The same mortality tables are used for active members with 90% of active deaths assumed non-duty and 10% assumed duty related.

For disabled retirees, the regular mortality tables are set forward 10 years in ages to reflect impaired longevity.

VALUATION METHODS AND ASSUMPTIONS

Police & Fire:

The mortality table was the 1994 Group Annuity Mortality Table (multiplied by 110% for males).

Sample Attained Ages	Single Life Retirement Values			
	Present Value of \$1 Monthly for Life		Future Life Expectancy (years)	
	Men	Women	Men	Women
45	\$150.01	\$156.35	34.46	39.68
50	142.83	151.03	29.80	34.89
55	133.72	143.96	25.29	30.17
60	122.60	134.87	21.01	25.59
65	109.88	124.03	17.08	21.28
70	96.25	111.62	13.60	17.30
75	81.52	96.94	10.51	13.60
80	66.26	80.88	7.85	10.31
Ref:	261 x 1.10	262 x 1.00		

This assumption is used to measure the probabilities of each benefit payment being made after retirement. For active members, the probabilities of dying before retirement were based upon 70% of the same mortality table as members dying after retirement and the probabilities of each benefit payment being made after retirement.

For disabled retirees, the regular mortality tables are set forward 10 years in ages to reflect impaired longevity.

VALUATION METHODS AND ASSUMPTIONS

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

Attained Ages	Percent of Eligible Members Retiring Within Next Year					
	General Members		MERS	Operative	Police	Fire
	Males	Females	Pol/Fire	Members		
45-49					30%	10%
50			20%		25%	10%
51			20%		25%	10%
52			20%		15%	10%
53			20%		15%	10%
54			20%		15%	15%
55	40%	35%	20%	30%	30%	25%
56	25%	20%	20%	30%	25%	25%
57	25%	20%	21%	30%	25%	20%
58	25%	20%	21%	30%	25%	20%
59	25%	20%	21%	30%	25%	25%
60	35%	30%	21%	30%	30%	50%
61	25%	20%	22%	30%	30%	50%
62	30%	25%	22%	40%	30%	50%
63	30%	25%	22%	40%	30%	50%
64	30%	25%	23%	40%	30%	50%
65	60%	55%	25%	40%	100%	100%
66	30%	25%	25%	40%		
67	35%	30%	26%	40%		
68	45%	45%	28%	40%		
69	50%	45%	30%	40%		
70	100%	100%	100%	100%		
Ref	1027	1028	1876	1026	1025	1024

Effective 6/30/99, if a person has the maximum years of credited service for benefit purposes, the assumed probability of retirement is the greater of 25% on the rate in the retirement table. The probability of retirement for Police Dispatch members between the ages of 50 and 55 is 30%.

VALUATION METHODS AND ASSUMPTIONS

Rates of separation from active membership were as shown below (rates do not apply to members eligible to retire and do not include separation on account of death or disability). This assumption measures the probabilities of members remaining in employment.

Sample Ages	Years of Service	% of Active Members Separating within Next Year				
		General		Operative Members	Police	Fire
		Males	Females			
ALL	0	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
	1	0.0	0.0	0.0	0.0	0.0
	2	0.0	0.0	0.0	0.0	0.0
	3	0.0	0.0	0.0	0.0	0.0
	4	0.0	0.0	0.0	0.0	0.0
25	5 & over	10.0	10.0	4.0	1.35	0.88
30		8.8	8.8	4.0	1.17	0.72
35		6.8	6.8	4.0	0.69	0.37
40		4.5	4.8	3.4	0.27	0.15
45		2.6	3.4	2.4	0.15	0.12
50		1.4	2.4	1.4	0.15	0.12
55		0.7	1.4	0.7	0.15	0.12
60	0.2	0.0	0.5	0.15	0.12	

Sample Years of Service	% of Active Members Separating Within the Next Year
	MERS Police/Fire
0	20.00%
1	17.00
2	14.00
3	11.00
4	9.00
5	6.50
10	5.00
15	3.70
20	3.00
25	2.70
30	2.60
34 and over	2.40

VALUATION METHODS AND ASSUMPTIONS

Rates of disability among active members.

Sample Ages	% of Active Members Separating within Next Year				
	General		Operative Members		MERS Pol/Fire
	Males	Females	Males	Females	
25	0.04	0.03	0.06	0.08	0.02
30	0.04	0.03	0.06	0.08	0.02
35	0.04	0.03	0.06	0.08	0.06
40	0.10	0.09	0.15	0.27	0.06
45	0.13	0.10	0.20	0.30	0.11
50	0.25	0.14	0.37	0.43	0.24
55	0.45	0.19	0.67	0.57	0.41
60	0.71	0.25	1.06	0.76	0.41
Ref:	9 x 50%	10 x 25%	9 x 75%	10 x 75%	257 x 100%

VALUATION METHODS AND ASSUMPTIONS

Sample Ages	% of Active Members Separating within Next Year			
	Police			
	Duty Disability		Non-Duty Disability	
	Males	Females	Males	Females
25	0.05	0.07	0.02	0.03
30	0.05	0.07	0.02	0.03
35	0.05	0.07	0.02	0.03
40	0.14	0.25	0.06	0.11
45	0.19	0.28	0.08	0.12
50	0.34	0.40	0.15	0.17
55	0.63	0.54	0.27	0.23
60	0.99	0.71	0.42	0.31
Ref:	9 x 70%	10 x 70%	9 x 30%	10 x 30%

Sample Ages	% of Active Members Separating within Next Year			
	Fire			
	Duty Disability		Non-Duty Disability	
	Males	Females	Males	Females
25	0.02	0.02	0.01	0.01
30	0.02	0.02	0.01	0.01
35	0.02	0.02	0.01	0.01
40	0.04	0.07	0.01	0.02
45	0.05	0.08	0.02	0.03
50	0.10	0.11	0.03	0.04
55	0.18	0.15	0.06	0.05
60	0.28	0.20	0.10	0.07
Ref:	9 x 20%	10 x 20%	9 x 7%	10 x 7%

VALUATION METHODS AND ASSUMPTIONS

Retiree Opt Outs: Based on current statistics we have assumed the following percentage of members will opt out of retiree medical insurance.

Police:	18%
Fire:	13%
Operative and Non-Operative:	12%

Data was not available regarding members who opt back in. We have assumed that members do not opt in once they opt out. However, data should be collected on these members in future valuations so that a better estimate can be made. To the extent that a significant number of members opt back into the program in the future, liabilities shown in this report may be understated.

Coverage: 60% of General members and 80% of Police and Fire members were assumed to elect two person coverage. 40% of General members and 20% of Police and Fire members were assumed to elect one person coverage.

The data about persons now covered was furnished by the Controller’s administrative staff. Although examined for general reasonableness, the data was not audited by the Actuary.

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA).

Health cost increases: See table below.

Medical and Drug Trend Rates	
Year Beginning July 1,	Intermediate
2011	9.00%
2012	8.25
2013	7.50
2014	6.75
2015	6.25
2016	5.75
2017	5.25
2018	4.75
2019	4.25
2020 & later	3.75

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

Decrement Operation:	Disability and turnover decrements do not operate retirement eligibility.
Decrement Relativity:	Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
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.
Incidence of Contributions:	Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.

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 (CONTINUED)

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.

ACTUARIAL COST METHOD

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

The Entry Age Normal, Level Percent of Payroll actuarial cost method has been used to calculate the GASB ARC for this valuation. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The entry age method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability. If experience is in accordance with the assumptions used, the ARC will increase at approximately the same rate as active member payroll, and the ARC as a percentage of payroll will remain basically level on a year to year basis. This is both an acceptable and reasonable cost method. The use of another actuarial cost method would produce different results.

OPEB PRE-FUNDING

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

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

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

APPENDIX B

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

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 Inflation). The increase in the plan's cost over time. Trend includes all elements that may influence a plan's cost, assuming that enrollments and the plan benefits do not change. Trend includes such elements as, pure price inflation, changes in utilization, advances in medical technology, and cost shifting.

Normal Cost. The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as "current service cost." Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.

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

Reserve Account. An account used to indicate that funds have been set aside for a specific purpose and are not generally available for other uses.

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

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

March 3, 2011

Mr. James J. O'Connor
Finance Director
City of Dearborn Retirement Systems
4500 Maple, City Hall
Dearborn, Michigan 48126

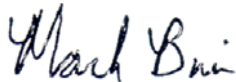
Re: Post-Retirement Health Coverages June 30, 2010 Valuation

Dear Jim:

Enclosed are 8 copies of this report.

Your comments are welcome.

Sincerely,

A handwritten signature in black ink that reads "Mark Buis". The signature is written in a cursive, slightly slanted style.

Mark Buis

MB:mrb
Enclosures