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July, 2009

To: Rhonda Place

Employer Name: Humbleton School District

**GASB 45 Valuation of Postemployment Benefits as of October 1, 2009**

Enclosed is an actuarial valuation report concerning "Other Postemployment Benefits" (OPEB) sponsored by the above-named Employer. The valuation date is October 1, 2009.

Milliman has prepared this report in compliance with Statement No. 45 of the Governmental Accounting Standards Board (GASB 45). It is intended for use in preparing financial statements for the Employer.

If you have any questions about this valuation, you may contact our office at [GASB45Oregon@milliman.com](mailto:GASB45Oregon@milliman.com). Please include the name of the Employer in the subject line of your e-mail. We will gladly accommodate requests for additional information or consulting; however, please be aware that such requests may be billed to the Employer at our hourly billing rates specified in the Employer's agreement with CIS regarding this valuation.

Sincerely,

Peter R. Sturdivan, FSA, EA, MAAA  
Principal and Consulting Actuary

William H. Clark-Shim, FSA, EA, MAAA  
Consulting Actuary

PRS:whc  
encl.



This work product was prepared solely for City County Insurance Services and Humbleton School District, and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

**GASB 45 Actuarial Valuation of  
Postemployment Benefits Other than Pensions  
for Humbleton School District**

**As of October 1, 2009**

**Prepared by:**

**Peter R. Sturdivan, FSA, EA, MAAA  
Principal and Consulting Actuary**

**William H. Clark-Shim, FSA, EA, MAAA  
Consulting Actuary**

**July, 2009**



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July, 2009

To: Rhonda Place

Employer Name: Humbleton School District

**Re: GASB 45 Actuarial Valuation of Postemployment Benefits as of  
October 1, 2009**

We have completed an actuarial valuation of postemployment benefits for the above-named Employer as of October 1, 2009.

The purpose of this report is to determine the Annual Required Contribution and required financial disclosures under the Governmental Accounting Standards Board Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). Our determinations reflect the procedures and methods prescribed in GASB 45.

In preparing our report, we relied on accounting and benefits information and employee data furnished to us by City County Insurance Services and the Employer. While Milliman has not audited the benefits information and census data, we reviewed them for reasonableness and they are, in our opinion, sufficient and reliable for the purposes of our calculations. If any of this information as summarized in this report is inaccurate or incomplete, the results shown could be materially affected and this report may need to be revised.

The actuarial cost method and assumptions used as well as the principal plan provisions upon which the analysis is based are set forth in the following report, and were approved by the Employer. Nevertheless, the emerging costs will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

Actuarial computations under GASB 45 are for purposes of fulfilling Employer accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of GASB 45. Determinations for purposes other than meeting Employer financial accounting requirements may be significantly different from the results reported herein. Accordingly, additional determinations are needed for other purposes. Reliance on information contained in this report by anyone for anything other than the intended purpose puts the relying entity at risk of being misled. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

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work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exception(s):

- (a) The Employer may provide a copy of Milliman's work, in its entirety, to its professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the Employer.
- (b) The Employer may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

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

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

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. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. We further certify that all costs, liabilities, rates of interest, and other factors in this valuation have been determined on the basis of actuarial assumptions and methods which, taking into account the experience of the Employer and reasonable expectations, are reasonable both individually and in combination.

The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,



Peter R. Sturdivan, FSA, EA, MAAA  
Principal and Consulting Actuary



William H Clark-Shim, FSA, EA, MAAA  
Consulting Actuary

PRS/WHC:whc



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## SECTION I. MANAGEMENT SUMMARY

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### **Introduction**

Milliman, Inc. ("Milliman") has been retained by City County Insurance Services to provide a GASB 45 actuarial valuation of postemployment benefits (OPEB) for Humbleton School District ("Employer"). In our valuation we:

- Project expected payouts for the next 10 years
- Calculate the present value of total benefits
- Calculate the actuarial liability (present value of benefits attributable to past service)
- Reconcile October 1, 2008 actuarial results to October 1, 2009 actuarial results
- Determine the Annual Required Contribution (ARC) and Annual OPEB Cost under GASB 45, for the fiscal years ending June 30, 2010 and June 30, 2011
- Prepare draft financial statement disclosures relating to the funded status of the plan

### **Results of Study**

The valuation results are summarized in the following exhibit and compared with the results of the prior valuation.

	<u>October 1, 2008</u>	<u>October 1, 2009</u>
Active Employees	374	391
Eligible Retirees	31	28
Spouses of Ineligible Retirees	<u>8</u>	<u>6</u>
Total Participants	413	425
Spouses of Eligible Retirees	17	16
Present Value of Benefits	\$ 7,616,023	\$ 9,963,731
Actuarial Accrued Liability	\$ 4,144,477	\$ 5,182,523
Assets	<u>0</u>	<u>0</u>
Unfunded Actuarial Accrued Liability	\$ 4,144,477	\$ 5,182,523
Normal Cost	\$ 285,450	\$ 387,940

The results of the October 1, 2008 valuation are used to prepare GASB 45 accounting results for the fiscal years ending June 30, 2009 and June 30, 2010. The results of the October 1, 2009 valuation are used to prepare GASB 45 accounting results for the fiscal years ending June 30, 2011 and June 30, 2012. Accounting results are developed in Exhibits 2, 4 and 5.

## SECTION I. MANAGEMENT SUMMARY

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The summary exhibit above uses the following terms:

The **Present Value of Benefits** is the present value of projected benefits (projected claims less retiree contributions) discounted at the valuation interest rate (4.50%).

The **Actuarial Accrued Liability** is the present value of benefits that are attributed to past service only. The portion attributed to future employee service is excluded. For retirees, this is equal to the present value of benefits. For active employees, this is equal to the present value of benefits prorated by service to date over service at the expected retirement age.

The **Normal Cost** is that portion of the Employer provided benefit attributable to employee service in the current year. Employees are assumed to have an equal portion of the present value of benefits attributed to each year of service from date of hire to expected retirement age.

### ***Background***

GASB 45 is a governmental accounting standard released in June 2004 which requires public-sector employers to apply accrual accounting to OPEB offerings to its retirees and their dependents. The accounting applies to two broad classifications of benefits, which are discussed in greater detail in Appendix A. First, GASB 45 requires that future employer-paid OPEB, such as an employer contribution towards retiree medical insurance, be recognized over the working lifetime of an employee – that is, the cost is recognized prior to the employee's retirement. GASB also requires that, under certain circumstances, an Employer must recognize an implicit subsidy arising from allowing retirees to continue medical coverage, even if the retirees pay the "full" premium charged by the insurance carrier. This implicit subsidy arises from the fact that health care premiums do not increase with age, whereas health care costs do increase with age.

### ***Assumptions***

With any valuation of future benefits, assumptions of anticipated future events are required. The Employer approved the assumptions used herein. The assumptions are generally based upon those used for valuing pension benefits under Oregon PERS, and were developed in consultation with Milliman.

## SECTION I. MANAGEMENT SUMMARY

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Discount Rate. GASB 45 requires that the interest rate used to discount future benefit payments back to the present day be based on the expected rate of return on any investments set aside to pay for these benefits. If no funds are set aside for this purpose, the discount rate would be based on the expected return on the Employer's operating funds. This report is based on the understanding that the Employer has not decided to establish a separate, irrevocable trust to fund the annual OPEB cost. We have, therefore, used a discount rate of 4.50% based on long term expectations of investment return for the Oregon Local Government Investment Pool or similar investments.

Health Cost Trend. We have assumed health costs will increase 8.0% in the first year (October 1, 2010 premiums compared with October 1, 2009 premiums), 7.0% in the second year, 6.5% in the third year, 6.0% for the 4<sup>th</sup> through 14<sup>th</sup> year, 5.5% for the 15<sup>th</sup> through 29<sup>th</sup> year, and 5.0% thereafter.

Retirement and Withdrawal Rates. We are generally using the rates adopted by the Oregon Public Employees Retirement System (PERS) for its December 31, 2008 actuarial valuation of retirement benefits.

A complete summary of the actuarial assumptions is presented in Appendix B.

### ***Variability of Results***

The results contained in this report represent reasonable estimates. However, variation from these or any other estimates of future retiree medical costs is not only possible but probable. Actual future costs may vary significantly from estimates in this report.

Valuation results are particularly sensitive to the assumptions used to project future health care cost increases (health cost trend). Exhibit 7 shows a comparison of valuation results based on valuation assumptions and based on a one percent change in the health cost trend.

Exhibit 3 compares the Actuarial Accrued Liability measured in this valuation with the prior valuation and estimates the amount and source of unexpected changes. Significant differences between actual and expected liability can come from health cost trend or demographic experience which differ from expectations. Changes to benefits offered or to valuation assumptions can also affect liabilities.

## SECTION I. MANAGEMENT SUMMARY

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The Employer should note that liabilities for implicit subsidies are calculated as the difference between expected claims and premiums. A relatively small percentage change to expected claims or premiums can affect the net liability by a larger percentage. This is one of several reasons why GASB 45 implicit subsidy liabilities tend to be more volatile than pension liabilities.

## SECTION II. EXHIBITS

### Exhibit 1. Projected Annual Employer Cost

The table below illustrates the projected pay-as-you-go Employer costs of providing retiree OPEB. The projections only consider the current group of employees and retirees and their current benefit structure.

<i><b>FY Ending June 30</b></i>	<i><b>Projected Claims</b></i>	<i><b>Retiree Premiums</b></i>	<i><b>Implicit Employer Subsidy</b></i>	<i><b>Explicit Employer Benefits</b></i>	<i><b>Retiree Life Insurance</b></i>	<i><b>Total Benefits</b></i>
2010	\$ 600,044	\$ (368,455)	\$ 231,589	\$ 0	\$ 0	\$ 231,589
2011	693,796	(420,822)	272,974	0	0	272,974
2012	815,451	(489,565)	325,886	0	0	325,886
2013	900,669	(534,665)	366,004	0	0	366,004
2014	946,354	(560,356)	385,998	0	0	385,998
2015	956,043	(568,540)	387,503	0	0	387,503
2016	982,283	(583,608)	398,675	0	0	398,675
2017	1,006,602	(600,311)	406,291	0	0	406,291
2018	1,102,583	(650,713)	451,870	0	0	451,870
2019	1,154,996	(682,565)	472,431	0	0	472,431
<i><b>Present Value of Benefits</b></i>	\$ 24,402,237	\$ (14,438,506)	\$ 9,963,731	\$ 0	\$ 0	\$ 9,963,731

Explicit employer benefits are payments made by the Employer to provide retirees' OPEB. Implicit employer subsidies generally represent the increase in premiums the Employer must pay on behalf of its active employees as a consequence of providing access to retirees' OPEB.

## SECTION II. EXHIBITS

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### Exhibit 2. Liabilities and Normal Cost

The **Present Value of Benefits** is the actuarial present value of benefits expected to be paid for all retirees and covered employees.

The **Actuarial Accrued Liability (AAL)** is the actuarial present value of benefits attributed to employee service rendered prior to the valuation date. The AAL equals the present value of benefits multiplied by a fraction equal to service to date over service at expected retirement.

The **Normal Cost** is the actuarial present value of benefits attributed to one year of service. This equals the present value of benefits divided by service at expected retirement. Since retirees are not accruing any more service, their normal cost is zero. Normal Costs are increased from the valuation date to the fiscal year end dates using a combination of the discount rate and health cost trend assumptions.

	<i>Valuation Date</i>	
	<i>October 1, 2008</i>	<i>October 1, 2009</i>
<b><i>Present Value of Benefits</i></b>		
Actives	\$ 6,314,111	\$ 8,679,029
Retirees	<u>1,301,912</u>	<u>1,284,702</u>
Total	\$ 7,616,023	\$ 9,963,731
<b><i>Actuarial Accrued Liability</i></b>		
Actives	\$ 2,842,565	\$ 3,897,821
Retirees	<u>1,301,912</u>	<u>1,284,702</u>
Total	\$ 4,144,477	\$ 5,182,523
<b><i>Normal Cost</i></b>		
As of Valuation Date	\$ 285,450	\$ 387,940
FYE June 30, 2009	\$ 310,577	
FYE June 30, 2010	\$ 326,106	
FYE June 30, 2011		\$ 422,089
FYE June 30, 2012		\$ 443,193

## SECTION II. EXHIBITS

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### Exhibit 3. Reconciliation of Valuation Results

This exhibit reconciles the results of the prior October 1, 2008 valuation with the results of the current October 1, 2009 valuation. The October 1, 2008 Actuarial Accrued Liability (AAL) and Normal Cost are brought forward in time with interest and reduced by benefits expected to have been received.

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<b>Expected October 1, 2009 AAL</b>	
(1) October 1, 2008 AAL	\$ 4,144,477
(2) October 1, 2008 Normal Cost	285,450
(3) Expected Benefits Received, October 1, 2008 – September 30, 2009	269,898
(4) Interest on Items (1) through (4)	<u>409,006</u>
(5) Expected October 1, 2009 AAL = (1) + (2) + (3) - (4) + (5)	\$ 4,868,758

  

<b>Reconciliation to Actual October 1, 2009 AAL</b>		<b>As a Percent of Expected AAL</b>
(6) Demographic (Gain) / Loss	\$ (409,812)	-8%
(7) Health Cost Trend (Gain) / Loss	456,616	9%
(8) Changes in Assumptions	266,961	5%
(9) Changes in Benefits Offered	<u>0</u>	0%
(10) Actual October 1, 2009 AAL = (5) + (6) + (7) + (8) + (9)	\$ 5,182,523	

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Actuarial gains and losses result from differences between the expectations of the prior valuation and the remeasurement of the current valuation.

Demographic (gain) / loss comes from many sources, such as rates of termination, retirement, and election of health care benefits.

Health cost trend (gain) / loss estimates the effect of actual 2008-2009 health cost trend compared with projections in the October 1, 2008 valuation. In many cases, health cost trend (gain)/loss may be the largest source of gain or loss from one valuation to the next. Health cost trend (gain) / loss can also capture changes in health care coverages offered by the Employer or elected by retirees. For example, if the Employer implemented a lower cost medical coverage during 2008-2009, that could be reflected as a health cost trend (gain).

The changes in assumptions and benefits reflect the basis for the October 1, 2008 valuation compared with the basis for the October 1, 2009 valuation, measured as of October 1, 2009. See Appendix A for a description of the changes in benefits, if any, since the prior valuation. See the end of Appendix D for a description of the changes in assumptions since the prior valuation.

## SECTION II. EXHIBITS

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### Exhibit 4. Unfunded Actuarial Accrued Liability

The Unfunded Actuarial Accrued Liability (UAAL) is the actuarial liability offset by any assets set aside to provide retiree health benefits. This is equal to the value of the retiree health benefits accrued to date that has not been funded. The UAAL must be amortized over a period not exceeding 30 years and included in the ARC amount (shown in Exhibit 5) each year.

We calculated the amortization of UAAL as a level percentage of payroll over a rolling period of 15 years. This means the amortization amount is recalculated at each valuation date using the current UAAL. Amortization amounts are expected to increase at the same rate as payroll increases each year. We assumed the Employer's payroll will increase 3.75% per year for this purpose.

UAAL amortization payments are increased from the valuation dates to the fiscal year end dates using the 4.50% discount rate assumption. UAAL amortization payments are recalculated at interim valuation dates (e.g., October 1, 2010) based upon expected liabilities at those dates.

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	<u>October 1, 2008</u>	<u>October 1, 2009</u>
<b>Unfunded Actuarial Liability (UAAL)</b>		
Actuarial Accrued Liability	\$ 4,144,477	\$ 5,182,523
Actuarial Value of Assets	<u>0</u>	<u>0</u>
Unfunded Actuarial Accrued Liability	\$ 4,144,477	\$ 5,182,523
<b>Amortization of UAAL for ARC</b>		
Amortization Factor	14.2694	14.2694
Amortization Amount at Valuation Date	\$ 290,445	\$ 363,191
Amortization Amount June 30, 2009	\$ 316,012	
Amortization Amount June 30, 2010	\$ 344,427	
Amortization Amount June 30, 2011		\$ 395,162
Amortization Amount June 30, 2012		\$ 427,341

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## SECTION II. EXHIBITS

### Exhibit 5. Projected Required Financial Statement Disclosures

The following table shows the calculation of the Annual Required Contribution and Net OPEB Obligation.

	<i>For the Fiscal Year Ending</i>	
	<u>June 30, 2010</u>	<u>June 30, 2011</u>
<b><i>Determination of Annual Required Contribution</i></b>		
(1) Normal Cost at year end	\$ 326,106	\$ 422,089
(2) Amortization of UAAL	<u>344,427</u>	<u>395,162</u>
(3) Annual Required Contribution (ARC) (1) + (2)	\$ 670,533	\$ 817,251
<b><i>Determination of Net OPEB Obligation</i></b>		
(4) Annual Required Contribution	\$ 670,533	\$ 817,251
(5) Interest on prior year Net OPEB Obligation	21,177	42,073
(6) Adjustment to ARC *	<u>33,218</u>	<u>65,996</u>
(7) Annual OPEB Cost (4) + (5) – (6)	\$ 658,492	\$ 793,328
(8) Explicit Benefit Payments **	0	0
(9) Implicit Benefit Payments	<u>194,130</u>	<u>231,589</u>
(10) Increase in Net OPEB Obligation (7) – (8) – (9)	\$ 464,362	\$ 561,739
(11) Net OPEB Obligation – beginning of year	\$ 470,600***	\$ 934,962
(12) Net OPEB Obligation – end of year (10) + (11)	\$ 934,962	\$ 1,496,701

\* Based upon beginning of year Net OPEB Obligation divided by ARC amortization factor of 14.2694, and given interest, net of assumed payroll increases, to end of year.

\*\* For projection purposes, we have shown Employer contributions to be equal to expected Explicit Benefit Payments plus Implicit Benefit Payments during a given fiscal year. GASB 45 defines contributions for this purpose to be actual benefit payments during the year and contributions made to a separate, irrevocable trust. These GASB 45 contributions can be accounted for by reflecting actual Explicit Benefit Payments for the fiscal year, plus estimated Implicit Benefit Payments shown above. Life insurance benefits are recognized under the Implicit Benefit Payments.

\*\*\* July 1, 2009 Net OPEB Obligation reported by the Employer.

## SECTION II. EXHIBITS

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### Exhibit 5. Projected Required Financial Statement Disclosures (continued)

The following table shows historical Annual OPEB Cost and Net OPEB Obligation.

<i>Fiscal Year Ended</i>	<i>Annual OPEB Cost</i>	<i>Percentage of OPEB Cost Contributed</i>	<i>Net OPEB Obligation</i>
06/30/2009	\$626,589	25%**	\$470,600
06/30/2010	\$658,492	29%**	\$934,962
06/30/2011	\$793,328	29%**	\$1,496,701

\* Annual OPEB Costs are not available for fiscal years prior to the fiscal year ending June 30, 2009.

\*\* Based upon Explicit and Implicit Benefit Payments projected in the related actuarial valuation reports. May be revised to reflect actual Explicit Benefit Payments.

**Funded Status and Funding Progress.** As of October 1, 2009, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$5,182,523, and the actuarial value of assets was zero, resulting in an unfunded accrued liability of \$5,182,523.

## SECTION II. EXHIBITS

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### Exhibit 6. Required Supplementary Information

The following table shows a schedule of Funding Progress required under GASB 45.

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>AAL Unit Credit</b>	<b>UAAL</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a % of Covered Payroll</b>
10/01/2008	\$0	\$4,144,477	\$4,144,477	0%	N/A*	N/A*
10/01/2009	\$0	\$5,182,523	\$5,182,523	0%	N/A*	N/A*

\* *Payroll was generally requested for this valuation only to the extent which it affected benefits. Most benefits were not related to pay. Therefore, the Employer will need to determine an appropriate covered payroll number for disclosure. Compensation used to determine contributions to Oregon PERS and/or an Employer-sponsored retirement plan during the fiscal year may be appropriate for this purpose.*

## SECTION II. EXHIBITS

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### Exhibit 7. Valuation Results – Sensitivity of Economic Assumptions

The following exhibit shows the results of the valuation based on valuation assumptions, and based on alternate health care cost trend assumptions to illustrate the sensitivity of changes of the valuation results to changes in the health care cost trend. The alternate health care cost trend assumptions are 1% higher or lower than the valuation assumptions in all future years.

<i>Discount Rate</i>	<i>4.50%</i>	<i>4.50%</i>	<i>4.50%</i>
<i>Ultimate Trend Rate</i>	<i>5.00%</i>	<i>4.00%</i>	<i>6.00%</i>
Actuarial Accrued Liability (AAL)	\$ 5,182,523	\$ 4,644,721	\$ 5,813,437
Change in AAL		\$ (537,802)	\$ 630,914
Normal Cost	\$ 387,940	\$ 331,327	\$ 456,984
Change in Normal Cost		\$ (56,613)	\$ 69,044

### SUMMARY OF BENEFITS VALUED

The following description of retiree benefits is intended to be only a brief summary. For details, reference should be made to Summary Plan Descriptions, Plan Documents, labor agreements, and employee booklets.

This summary is intended only to describe our understanding of the essential features of the postemployment benefits other than pensions (OPEB) that will be provided to current and future retirees based on Oregon personnel rules and information provided by Humbleton School District and City County Insurance Services. All eligibility requirements and benefit amounts shall be determined in strict accordance with the relevant plan documents. To the extent that this summary does not accurately reflect any OPEB provisions, the results of this valuation may not be accurate.

There are two categories of OPEB valued under GASB 45: explicit employer benefits and implicit employer subsidies. Explicit employer benefits are paid from the employer to the retiree or from the employer to a benefits provider on behalf of the retiree. Implicit employer subsidies arise from offering benefits to retirees.

Explicit employer benefits under GASB 45 include retiree medical, dental, or life insurance coverage, where the employer pays for all or a portion of such coverage. Termination benefits, such as payout of unused sick leave or conversion of such payout to an individual account, are not accounted for under GASB 45.

In Oregon, the most common implicit employer subsidy under GASB 45 comes from offering pre-Medicare health care insurance coverage to retirees based on the gross premium rates charged to active employees. Health care premiums, priced only for retirees who on average incur higher health care claims costs than younger active employees, would be more expensive than health care premiums that are priced to cover the average costs of both actives and retirees combined. GASB 45 states that this implicit subsidy must be included in the liabilities and costs reported on the entity's financial statements. The sum of the liability from the explicit employer benefits and the implicit employer subsidies equals the total Actuarial Accrued Liability (AAL) under GASB 45.

To our knowledge, the summary below covers all Employer OPEB which result in material AAL under GASB 45, except for benefits provided through Oregon PERS. If additional retiree benefits may result in AAL under GASB 45, the results of this valuation may need to be revised.

#### EXPLICIT EMPLOYER BENEFITS

The Employer does not pay for any retiree OPEB under GASB 45.

**IMPLICIT EMPLOYER SUBSIDIES*****Eligibility***

All employees of the Employer retiring from active service with a pension benefit payable immediately under Oregon PERS or another Employer-sponsored retirement plan.

***Health Care Benefits***

Retirees and their dependents under age 65 are allowed to receive the same health care coverage at the same premium rates as offered to active employees. The retiree is responsible for any portion of the premiums not paid by the Employer.

The implicit employer subsidy is measured as the expected health care cost per retiree and dependent, less the gross premiums charged by the insurance carrier for that coverage. The subsidy is only measured for retirees and spouses younger than age 65, at which point such retirees and spouses typically become eligible for Medicare.

We are not aware of any additional implicit employer OPEB subsidies which result in GASB 45 AAL.

### OPEB COSTS AND PREMIUMS

The following methods were used to establish costs and premiums for purposes of measuring the Employer's OPEB liability.

#### IMPLICIT EMPLOYER SUBSIDIES

##### *Expected Health Care Costs Per Person per Month*

For the period October 2009 – September 2010:

	Expected Monthly Cost			
	Male Retirees	Female Retirees	Male Spouses	Female Spouses
Age 50	\$ 660	\$ 727	\$ 480	\$ 533
Age 55	768	794	631	634
Age 60	927	906	820	756
Age 64	1,135	1,066	1,010	890

Expected health care costs were developed using a composite of the premiums due for active and retired members electing coverage as of October 1, 2009. The effective date of the premiums provided as of the valuation date was July 1, 2009. The costs above were calculated by increasing (decreasing) premiums approximately 0.64% per month for each month the premium effective date preceded (followed) October 1, 2009.

Milliman's Health Cost Guidelines were used to allocate costs by age and gender. Retirees' costs include a load for expected health status of retirees relative to active employees and spouses.

##### *Average Gross Premium Per Person per Month*

For the period August October 2009 – September 2010, current health care premiums due for retirees and their spouses were modeled using an average monthly premium of \$497 per retiree per month, and \$554 per spouse per month. The effective date of the premiums provided as of the valuation date was July 1, 2009. The premiums above were calculated by increasing (decreasing) premiums approximately 0.67% per month for each month the premium effective date preceded (followed) October 1, 2009.

### ACTUARIAL COST METHOD

The actuarial cost method used is the **Projected Unit Credit Cost Method**.

The **Present Value of Benefits** is the present value of projected benefits (projected costs less retiree contributions) discounted at the valuation interest rate.

The **Actuarial Accrued Liability (AAL)** is the present value of benefits that are attributed to past service only. The portion attributed to future employee service is excluded. For retirees, this is equal to the present value of benefits. For active employees, this is equal to the present value of benefits prorated by service to date over service at the expected retirement age.

The **Normal Cost** is that portion of the Employer provided benefit attributable to employee service in the current year. Employees who are not eligible for benefits are assumed to have an equal portion of the present value of benefits attributed to each year of service from date of hire to expected retirement age.

The **Annual Required Contribution (ARC)** is the amount the Employer would be required to report as an expense for the 2009-2010 fiscal year under GASB 45. The ARC is equal to the Normal Cost plus an amount to amortize the unfunded AAL as a level percent of payroll over 15 years on a rolling basis. Note, the ARC represents an accounting expense, but the Employer is not required to contribute the ARC to a separate trust. If the Employer does not set aside funds equal to the ARC each year, then the ARC (less actual benefit payments) will accumulate as a liability (Net OPEB Obligation) on the Employer's balance sheet.

### ACTUARIAL ASSUMPTIONS

#### *Economic Assumptions*

Discount Rate (liabilities)	4.5% for unfunded liabilities, based on the expected long-term annual investment returns for Oregon's Local Government Investment Pool and comparable investment vehicles
Health Cost Trend	8.0% in the first year (October 1, 2010 premiums compared with October 1, 2009 premiums), 7.0% in the second year, 6.5% in the third year, 6.0% for the 4 <sup>th</sup> through 14 <sup>th</sup> year, 5.5% for the 15 <sup>th</sup> through 29 <sup>th</sup> year, and 5.0% thereafter  Health cost trend affects both the projected health care costs as well as the projected health care premiums.
Annual Payroll Increases	3.75%, compounded annually for purposes of amortizing unfunded AAL. This assumption is based on the Oregon PERS valuation assumptions as of December 31, 2008.

#### *Demographic Assumptions*

Demographic assumptions regarding retirement, mortality, and turnover are based on Oregon PERS valuation assumptions as of December 31, 2008.

Disability	Not used
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Retirement

Based on Oregon PERS assumptions. Annual rates are based on age, Tier / OPSRP, and duration of service.

Age	Annual Rates				
	30+ Years		<30 Years		
	Tier 1/Tier 2	OPSRP	Tier 1	Tier 2	OPSRP 2
50	40.00%				
51	45.00				
52	55.00				
53	55.00				
54	55.00				
55	40.00	5.00%	14.00%	7.00%	5.00%
56	25.00	2.50	7.00	3.50	2.50
57	25.00	3.75	10.00	5.00	3.75
58	25.00	40.00	15.00	5.00	3.75
59	25.00	25.00	10.00	5.00	3.75
60	13.00	13.00	10.00	10.00	3.75
61	13.00	13.00	15.00	15.00	5.00
62	25.00	25.00	15.00	15.00	7.00
63	20.00	20.00	10.00	10.00	6.00
64	20.00	20.00	15.00	15.00	6.00
65	100.00	100.00	100.00	100.00	100.00

Withdrawal

Based on Oregon PERS assumptions with no select period. Annual rates are based on age:

Age	Annual Rates
30	5.94%
35	4.35
40	3.31
45	2.67
50	2.26

Mortality

RP-2000 healthy combined male and female mortality tables, set back three years.

Excluded employees

Temporary employees not eligible to participate in Oregon PERS were excluded from valuation.

Part-time employees scheduled to work fewer than 600 hours per year were excluded from valuation.

PERS Service

PERS service (or that for any other Employer-sponsored retirement plan) as of the valuation date was generally estimated based upon the elapsed time from date of hire, using date of hire and PERS tier info provided by the Employer. Note that additional assumptions made for incomplete or inconsistent data are described below. Employees in the PERS waiting period were assumed to participate on October 1, 2009.

Future PERS service for retirement eligibility is generally assumed to accrue at a rate of 1.0 per year until retirement. OPSRP members who work part-time are assumed to earn a partial year of service for each year based on the ratio of regularly scheduled annual hours divided by 2,000.

#### Future Retiree Coverage

80% of active members are assumed to elect coverage upon retirement until age 65. 50% of members who elect coverage upon retirement are also assumed to elect spouse coverage until the spouse reaches age 65.

#### Spouse Age

Female spouses are assumed to be two years younger than male spouses.

### ***Data Processing***

Where we found limited amounts of census data provided by the Employer missing or internally inconsistent, the following assumptions were made. Significant data deficiencies, if any, were generally reported to the Employer with a request to be fixed and resubmitted. PERS Tier data found to be inconsistent with dates of hire were processed under the following assumptions, which we determined to be reasonable, conservative approximations in absence of complete data from Oregon PERS.

#### Missing Spouse Data

Female spouses were assumed to be two years younger than male spouses.

#### Missing Tier Data

Members were assumed to be in the tier in which their hire date falls. Tier 1 participants were hired before January 1, 1996, Tier 2 participants were hired between January 1, 1996 and August 28, 2003 and OPSRP participants were hired after August 28, 2003.

#### Inconsistent Tier / PERS Date

Members were assumed to be hired at age 32, except that the date of hire will not fall outside the dates associated with the indicated tier. This assumption affected approximately ## participants.

#### PERS Entry Date

Once a consistent tier and date of hire are determined, the date of entry into PERS is assumed to be the first of the month next following six months from date of hire.

#### Part-time Employees

Part-time employees were assumed to work a proration of 40 hours per week based upon full time percentage.

***Changes since Prior Valuation***

The following items have changed since our prior valuation:

Expected Claims and Premiums	Updated to reflect changes in available benefits and premium levels. If applicable, expected retiree and dependent costs were updated to reflect current health cost guidelines and adjusted so that retirees electing coverage were generally assumed to have higher morbidity (claims rates) at a given age than active members or covered dependents.
Health Cost Trend	Health cost trend was revised to reflect recent economic conditions, and is based on a model circulated by the Society of Actuaries. The prior assumption was 10.0% in the first year (October 1, 2009 premiums compared with October 1, 2008 premiums), graded down 0.5% per year to 5.0% per year in the eleventh year and beyond.

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**SUMMARY OF PARTICIPANT DATA**

The following were included in our analysis as of October 1, 2009 based on information provided by the Employer.

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	<u>Administrator</u>	<u>Certified</u>	<u>Classified</u>	<u>Total</u>
<b>Number of Members</b>				
Active				
Retired Members				
Spouses of Ineligible Retirees				
Total				
Spouses of Eligible Retirees				
<b>Average Age</b>				
Active				
Retired				
<b>Average Service – Actives</b>				
PERS Service				
District Service				

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DISTRIBUTION OF ACTIVE MEMBERS BY AGE AND SERVICE

Administrator

AGE	Years of PERS Service							Total
	0 TO 4	5 TO 9	10 TO 14	15 TO 19	20 TO 24	25 TO 29	30 & Up	
Under 25								
25 to 29								
30 to 34								
35 to 39								
40 to 44								
45 to 49								
50 to 54								
55 to 59								
60 to 64								
65 & Up								
Total	4	14	24	34	24	54	30	0

Certified

AGE	Years of PERS Service							Total
	0 TO 4	5 TO 9	10 TO 14	15 TO 19	20 TO 24	25 TO 29	30 & Up	
Under 25								
25 to 29								
30 to 34								
35 to 39								
40 to 44								
45 to 49								
50 to 54								
55 to 59								
60 to 64								
65 & Up								
Total	4	14	24	34	44	54	30	0

Classified

AGE	Years of PERS Service							Total
	0 TO 4	5 TO 9	10 TO 14	15 TO 19	20 TO 24	25 TO 29	30 & Up	
Under 25								
25 to 29								
30 to 34								
35 to 39								
40 to 44								
45 to 49								
50 to 54								
55 to 59								
60 to 64								
65 & Up								
Total	4	14	24	34	44	54	30	0