CLARITY IN NUMBERS, LLC
Actuaries | Consultants

GASB 45 and GASB 43 July 1, 2008 Liability Information and 2009 Annual OPEB Cost

Dorchester County Government
Postretirement Health Insurance Plan

October 1, 2009

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Actuarial Certification

This report documents the results of an actuarial valuation and contains financial reporting information for fiscal year 2009 for the Dorchester County Government Postretirement Health Insurance Plan as set forth in GASB Statement of Accounting Standard No. 45 ("GASB 45") and No. 43 ("GASB 43").

The calculations are based on census, plan information, and health care related information provided by Dorchester County Government as of July 22, 2009. We reviewed this information for reasonability but did not formally audit the data and do not attest to the accuracy of this information.

Actuarial computations under GASB 45 and GASB 43 are for purposes of fulfilling employer financial accounting requirements. Determinations for purposes other than meeting employer financial accounting requirements may be significantly different from the results reported here (e.g. the report does not address the funding adequacy of benefits related to this Plan.) These calculations have been made on a basis consistent with our understanding of GASB 45 and GASB 43. Actuarial assumptions and methods used are described in the "Actuarial Assumptions and Methods" section.

The valuation complies with the generally accepted accounting principles including the Actuarial Standards Board Actuarial Standards of Practices ("ASOPs") relating to Other Post-Employment Benefits ("OPEBs").

The American Academy of Actuaries (AAA) maintains Qualification Standards for actuaries issuing Statements of Actuarial Opinion. The standard (effective January 1, 2008) increased its continuing education requirements and expands the applicability of the Qualification Standards to all actuaries issuing Statements of Actuarial Opinion in the United States.

The undersigned have satisfied the basic education, experience, and continuing education requirements and are qualified to issue a Statement of Actuarial Opinion for this project in accordance with the Qualification Standards in the AAA's Code of Professional Conduct.

Clarity in Numbers, LLC ("Clarity") has no relationships with Dorchester County Government or its personnel (other than this project) that would impair our independence in performing these calculations.

We welcome any questions and will provide further explanations on this material as requested.

Clarity in Numbers, LLC

Stacey B. Levine

October 1, 2009

Stacey B. Levine, FSA, EA, MAAA
CEO and President

Date

Chad A. Keuneke

October 1, 2009

Chad A. Keuneke, FSA, EA, MAAA
Consulting Actuary

Date

Section 1 – Summary

Summary	Fiscal 2009
GASB 45 Information on Funding in Full Basis	
Fiscal Year	July 1 - June 30
Effective Date for Implementation (confirmed with auditors)	July 1, 2008
Actuarial Accrued Liability (AAL) as of July 1, 2008	
Actives (fully eligible)	$ 408,621
Actives (not yet fully eligible)	8,169,582
Retirees and Dependents	6,724,239
Total	$ 15,302,442
Normal Cost	$ 606,852
Market Value of Assets as of July 1, 2008	$ 0
Market Value of Assets as of June 30, 2009	$ 2,203,445
Impact on Statement of Activities (Income Statement)	
Annual OPEB Cost (AOC)	$ 1,704,933
Impact on Statement of Net Assets (Balance Sheet)	
Actual Contributions	$ 2,203,445
Net OPEB Obligation (NOO) at June 30, 2009	$ (498,512)
Participant Information	
Actives (fully eligible)	4
Actives (not yet fully eligible)	258
Retirees and Dependents	93
Total	355

Section 2 – Liability Information and Annual OPEB Cost ("Expense") for 2009 (continued)

The following table develops the Annual OPEB Cost for fiscal 2009 if Plan Sponsor funds the Annual OPEB Cost (AOC) in full. If only part of the AOC is funded, the discount rate and associated AOC would adjust accordingly.

Table 2.1 – Liability Information and Expense (Funding in Full)

Annual OPEB Cost (GASB 45 and GASB 43)	Fiscal 2009
Discount rate	7.00%
(1) Normal Cost (cost of upcoming year benefit accruals for actives)	$ 606,852
(2) Amortization of Unfunded Accrued Liability	
(a) Actuarial Accrued Liability (AAL)	$ 15,302,443
(b) Actuarial Value of Assets	2,203,445
(c) Unfunded Actuarial Accrued Liability (UAAL): (a) - (b)	13,098,998
(d) Amortization period [1]	30 years
(e) Amortization of the UAAL (up to 30 year maximum)	986,543
(3) Interest Adjustment (to end of year)	$ 111,538
(4) Annual Required Contribution (ARC): {(1) + (2(e)) + (3)}	$ 1,704,933
(5) Interest on Net OPEB Obligation (NOO)	0
(6) Amortization of NOO	0
(7) Annual OPEB Cost (AOC): {(4) + (5) – (6)}	$ 1,704,933

[1] Maximum permissible amortization period. Other methods for amortizing can be selected.

Section 3 –Net OPEB Obligation (NOO)

The following table develops the Net OPEB Obligation (NOO) which directly impacts Plan Sponsor's Statement of Net Assets (balance sheet).

Determination of the Net OPEB Obligation [1]		
	Total	
(1) Annual OPEB Cost (Expense)	$ 1,704,933	% of payroll unknown
(2) Assumed Contributions	2,203,445	% of payroll unknown
(3) Increase in Net OPEB Obligation (NOO): (1) - (2)	$ (498,512)	
(4) Net OPEB Obligation (NOO) at beginning of year	0	
(5) Estimated Net OPEB Obligation (NOO) at end of year: (3) + (4)	$ (498,512)	

[1] The accumulated Net OPEB Obligation (NOO) at implementation of GASB 45 is $0.

Section 4 – Assets

Table 4.1 – Statement of Plan Net Assets, End of Fiscal Year

Assets	Fair Market Value
Cash and Cash Equivalents	$ 2,203,445
Receivables	
Contributions	$ 0
Accrued interest and dividends	0
Other	0
Fixed Income Investments	
Interest bearing cash	$ 0
Government and Agency Bonds	0
Mutual Funds - Fixed Income	0
Corporate Fixed Income	0
Equity Investments	
Mutual Funds - Equity	$ 0
Corporate Equity	0
Total Assets, June 30, 2009	$ 2,203,445

Section 4 - Assets (continued)

Table 4.2 –Statement of Change in Plan Net Assets

	Market Value	Actuarial Value
(1) Assets as of July 1, 2008	$ 0	$ 0
(2) Assets as of June 30, 2009	$ 2,203,445	$ 2,203,445
(3) Contributions	$ 2,203,430	$ 2,203,430
(4) Benefit payments	$ 0 [1]	$ 0 [1]
(5) Investment Expenses	Not known	Not known

Section 5 – Expected Cash Flow Projection

Expected Cash Flow Projection ($)		
30-Year Cash Flow Projection of Benefit Payouts at 7.0% (period beginning July 1)	Gross Payments	Net Payments
Year 1 (2008)	$ 618,907	$ 532,300
Year 5 (2012)	951,052	823,160
Year 10 (2017)	1,507,247	1,313,995
Year 15 (2022)	2,145,713	1,851,333
Year 20 (2027)	2,871,156	2,468,190
Year 25 (2032)	3,276,055	2,808,896
Year 30 (2037)	3,543,820	3,040,601

Section 6 –Plan Participants

A high-level summary of the census data provided by Dorchester County Government is summarized below.

Participants as of February 1, 2009			
	Count	Average Age	Average Service
Actives (fully eligible)	4	45	10
Actives (not yet fully eligible)	258		
Retirees (Pre-65 and Post-65)	67	70	
Dependents (Pre-65 and Post-65)	26	68	
Total	355		

Please note that the actives shown above include only those who were hired on or before July 1, 2008.

Section 7 – Plan Provisions

Dorchester County Government Postretirement Health Insurance Plan	
Eligibility:	Eligible upon retirement for employees with 30 years of service at any age or employees who have attained age 55 with at least 16 years of service if enrolled in the active medical plan immediately prior to retiring. Participants are eligible for medical and prescription drug benefits. The spouse of an eligible retiree is also eligible to receive benefits from this Plan. Benefits continue for the lifetime of the retiree. Surviving spouses must pay 100% of the premium to continue coverage.
Coverage:	All eligible employees and their dependents can elect coverage in the Dorchester County Government Plan. Pre-65 retirees pay the same percentage of the premiums charged as an active for both themselves and their dependents. Post-65 retirees pay 15% of the premiums charged for both themselves and their dependents.

Section 7 – Plan Provisions (continued)

Pre-65 Retirees Medical Benefits CareFirst Blue Choice HMO	
	In-Network
Deductible:	
Individual/Family	None
Coinsurance:	
Primary Care Physician's Office Visit	100% after $20 copay
Specialty Care Physician's Office Visit and Urgent Care	100% after $30 copay
Well Child Care	100% after $20 copay
Routine GYN Office Visit / Outpatient Maternity Care	100% after $20 PCP/$30 Specialist
Inpatient Hospitalization / Skilled Nursing Facility	100%
Outpatient Facility Services, Diagnostic Lab Tests	100%
Emergency Room	100% after $50 copay
Out- of-Pocket Maximums:	
Single	$2,000
H/W	$3,800
P/Child	$3,000
Family	$6,000

Section 7 – Plan Provisions (continued)

Pre-65 Retirees Medical Benefits BlueChoice Opt-Out POS		
	In-Network	Out-of-Network
Deductible:		
Individual/Family	None	None
Coinsurance:		
Primary Care Physician's Office Visit and Well Child Care	100% after $20 copay	80% of allowed benefit
Routine GYN Office Visit / Outpatient Maternity Care	100% after $20 PCP/$30 Specialist	80% of allowed benefit
Inpatient Hospitalization / Skilled Nursing Facility	100%	80% of allowed benefit
Outpatient Facility Services, Diagnostic Lab Tests	100%	80% of allowed benefit
Emergency Room	100% after $50 copay	
Out- of-Pocket Maximums:		
Single	$2,100	
H/W	$4,100	
P/Child	$3,200	
Family	$6,500	

Section 7 – Plan Provisions (continued)

Pre-65 Retirees Medical Benefits BluePreferrd PPO		
	In-Network	Out-of-Network
Deductible:		
Individual/Family	None	$500 / $1,000
Coinsurance:		
Primary Care Physician's Office Visit	100% after $15 copay	70% after deductible
OB/GYN Office Visit	100% after $15 copay	80% of allowed benefit
Well Child Care	100% after $15 copay	70% not subject to deductible
Inpatient Hospitalization / Skilled Nursing Facility	90%	70% after deductible
Outpatient Hospital Services	90%	80% of allowed benefit
Diagnostic Lab Tests and X-rays - Office Visit	90%	90% after deductible
Emergency Room	90% after $50 copay	
Urgent Care	100% after $15 copay	70% after deductible
Out- of-Pocket Maximums:		
Single	$1,500	$3,000
Family	$3,000	$6,000

Post-65 Retirees Medical Benefits AARP / United HealthCare Medicare Supplement Plan J	
Basic Benefits for Plan J include Part A coinsurance for inpatient care (excluding the initial deductible ($1,068 in 2009) for up to 150 days ($267 per day for days 61 through 90 and $534 for 60 lifetime reserve days in 2008), 100 percent of Medicare-eligible hospital care expenses after 150 days, and Part B coinsurance (excluding the Part B deductible $135).	
	Plan J
Basic Benefits	Covered
Medicare Part A Deductible	Covered
Skilled Nursing Facility Coinsurance	Covered
Medicare Part B Deductible	Covered
Medicare Part B Excess Charges	Covered
Foreign Travel Emergency	Covered
At-home recovery	Covered
Preventive Care - not coverage by Medicare	Covered

Section 7 – Plan Provisions (continued)

Retirees Prescription Drug Benefits Copayments		
Drug Type	Retail - 34 day supply In-Network	Mail Order - 90 day supply
Generic (Tier 1)	$0	$0
Brand Name Formulary (Tier 2)	$25	$50
Brand Name NON-Formulary (Tier 3)	$45	$90

2008 - 2009 Monthly Premiums Medical & Prescription Drug		
Pre - 65 Retirees		
Plan	Retiree	Spouse
HMO	$58	$55
POS	$130	$124
PPO	$216	$206
Post - 65 Retirees		
	Retiree	Spouse
AARP Medical Supplement Plan J	$69	$66

Statement by Dorchester County Government to ensure accuracy of provisions

The above plan provisions represent an accurate assessment of the Other Post-Employment Benefit Plan (OPEB) benefits, offered by Dorchester County Government.

Printed Name

Signature

Date

Section 8 – Actuarial Assumptions and Methods

Actuarial Standards of Practice
Actuarial Standards of Practice No. 35 ("ASOP 35") requires that each demographic and other noneconomic assumption should be reasonable individually and in conjunction with one another. At each measurement date, the actuary should consider whether the selected assumptions continue to be reasonable. If the actuary determines that one or more of the previously selected assumptions are no longer reasonable, the actuary will perform an experience study to determine the best estimate for the Plan's population.
Actuarial Standards of Practice No. 27 ("ASOP 27") requires that each economic assumption be reasonable individually and in conjunction with one another. A best-estimate range should be constructed for each economic assumption with the final assumption falling within that range.
This section summarizes the economic, demographic and noneconomic actuarial assumptions and the actuarial cost method used to determine plan liabilities and expense.

Section 8 – Actuarial Assumptions and Methods (continued)

Actuarial Methods	
Valuation/Measurement Date:	July 1, 2008
Data Collection Date:	July 1, 2008
Fiscal Year:	July 1, 2008 - June 30, 2009
Actuarial Cost Method:	Projected Unit Credit ("PUC") -- Costs attributable to past service and the current year's service determined by prorating Present Value of Benefits ("PVB") over all years of service that benefits are expected to be paid from the plan. Normal Cost ("NC") – The portion of the Present Value which is allocated to the valuation year by the actuarial cost method. Under PUC, the current year's portion is equal to the PVB divided by the total credited service at the anticipated retirement date. Actuarial Accrued Liability ("AAL") – Present value of the past service liability of the employee's total PVB. Under PUC, AAL = PVB times the ratio of the participant's credited service to the total credited service at the anticipated retirement date.
Asset Valuation Method:	Market Value of Assets
Funding Policy:	Fund 100% of the ARC.
Amortization of the UAAL:	Closed, level dollar amortization over maximum allowable period of 30 years.
Interest on ARC:	End of year
Changes Since Last Valuation:	N/A

Section 8 – Actuarial Assumptions and Methods (continued)

Actuarial Assumptions			
Discount Rate:	7.00% per year		
Expected Return on Assets:	7.00% per year		
Health Care Trend Rate:			
	Year (7/1)	Medical and Drug Costs	Retiree Contribution
	2008	9.48%	9.48%
	2009	9.03%	9.03%
	2010	8.58%	8.58%
	2011	8.14%	8.14%
	2012	7.69%	7.69%
	2013	7.24%	7.24%
	2014	6.79%	6.79%
	2015	6.34%	6.34%
	2016	5.90%	5.90%
	2017	5.45%	5.45%
	2018	5.00%	5.00%
Mortality Table:	RP-2000 Combined Healthy Mortality Table – Projected with Scale AA fully generational.		

Section 8 – Actuarial Assumptions and Methods (continued)

Actuarial Assumptions		
Disability Rates:	None assumed.	
Withdrawal Rates:	Sample rates, from Table T-1 of the Actuary's Pension Handbook are as follows:	
	Age	
	25	9.8%
	30	9.4%
	35	8.8%
	40	8.0%
	45	6.7%
	50	4.9%
	55	2.6%
Retirement Rates:	75% at 30 years of service, otherwise the rates are based on the following table:	
	Age	
	55 - 59	10%
	60 - 61	5%
	62	50%
	63 to 64	25%
	65 and over	100%

Section 8 – Actuarial Assumptions and Methods (continued)

Actuarial Assumptions					
Annual Per Capita Costs - Medical and Rx:	Age	PPO - Retiree	PPO - Spouse	HMO - Retiree	HMO - Spouse
	55	$ 8,535	$ 8,658	$ 6,302	$ 6,606
	60	10,384	10,534	7,667	8,037
	64	12,148	12,323	8,969	9,402
	65	-	-	-	-
	66	-	-	-	-
	70	-	-	-	-
	75	-	-	-	-
	80	-	-	-	-
	Age	POS - Retiree	POS - Spouse	Post 65 - Retiree	Post 65 - Spouse
	55	$ 7,184	$ 7,291	$ -	$ -
	60	8,740	8,870	-	-
	64	10,224	10,377	-	-
	65	-	-	4,111	4,111
	66	-	-	4,178	4,178
	70	-	-	5,087	5,087
	75	-	-	5,428	5,428
	80	-	-	5,734	5,734
Participation:	90% of active employees are assumed to participate in the medical plan upon retirement.				
Lapse Rate:	0.0% of current retirees are assumed to lapse coverage per year.				
Medicare Eligibility:	All participants are assumed to be eligible for Medicare upon attainment of age 65.				
Full Attribution Age:	Age at which retirement rate is 100%.				
Marriage Assumption:	40% of eligible actives are assumed to be elect spouse coverage upon retirement with husbands three years older than wives. Actual spouse data used for current retirees.				

Section 9 – Per Capita Costs Development

Per Capita Costs Development	
General Description:	Benefits provided are pre-65 and post-65 retiree medical and prescription drug coverage to eligible retirees and their dependents.
Plan Options:	Pre-65 Retirees and their eligible dependents are covered through CareFirst Blue Cross Blue Shield of Maryland. The retirees have a choice between a BlueChoice HMO, BlueChoice Opt-Out POS or BluePreferred PPO. The same prescription drug plan is provided with all of the medical plans that are offered. The Post 65 Retirees and their eligible dependents are covered through AARP / United Healthcare with a Medicare Supplemental Plan J Plan. For the purposes of the valuation, premiums are used as the basis for developing starting costs for retirees and their eligible spouses for the medical plan.
How Insured:	Medical coverage is fully insured and prescription drug coverage is self-insured.

Section 9 – Per Capita Costs Development (continued)

Per Capita Costs Development	
Information Provided for Study:	Historic paid claim data, enrollment, stop-loss, and other information were provided for the prescription drug plan. Premium rates for the medical plan and prescription drug plan were provided.
Analysis of Data:	Average ages and average costs were calculated for the retiree data. The average costs that were calculated will reflect the expected cost for the average plan design within the group and also reflect the average age.
Determination of Starting Per Capita Costs:	Historic prescription drug claim experience was used. As such, starting costs the pre-65 retiree group were determined using the proprietary Clarity Pricing Model. The model calculates an expected cost for the benefits provided. The calculation incorporates the impact of the group's age-sex distribution, geography, industry, and anticipated provider discounts. The result is an expected, composite per capita claim cost for the group. The composite costs were then disaggregated into age-specific starting costs based on average ages and assumptions on the relationships of costs and increasing age. All post-65 starting costs are taken from the Part J premium and the aged drug coverage premium. As represented to us, the medical premium rates charged to pre-65 retiree group are the same as the active rates for the Plan. As such, the premium rates are viewed as composite rates for the combined active groups. According to GASB Statement No. 45 ("GASB 45"), when an employer provides benefits to both active employees and retirees through the same plan, the benefits to retirees should be segregated and measured independently for actuarial measurement purposes. The projection of future retiree benefits should be based on claims costs, or age-adjusted premiums approximating claims costs, for retirees, in accordance with actuarial standards issued by the Actuarial Standards Board. The resulting "implicit rate subsidy", as defined in GASB 45, is the difference between the calculated claims cost and the cost upon which retiree contributions are determined (in this case, the premium rates). Retiree premiums were estimated for the pre-65 retiree group as if they were rated on a stand-alone basis. The premium rates being charged were adjusted to reflect a premium for a pre-65 retiree group only. The results were then disaggregated into age-specific starting costs based on average ages and assumptions on the relationships of costs and increasing age.

Section 10 – Required Supplementary Information (RSI)

Upon implementation, disclosing the first year of liability and assumptions would satisfy the Required Supplementary Information (RSI) since the prior two (2) years will be unavailable.

Table 10.1 – Annual OPEB Cost

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal 2009 for the Plan are as follows:

Annual OPEB Cost				
Retiree Medical Plan	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
	6/30/2009	$ 1,704,933	129.24%	$ (498,512)

Table 10.2 – Funded Status

The funded status of the Plan was as follows:

Funded Status	
(a) Actuarial accrued liability	$ 15,302,442
(b) Actuarial value of plan assets	2,203,445
Unfunded actuarial accrued liability (funding excess) [(a) – (b)]	$ 13,098,997
Funded ratio (b) / (a)	14.4%
(c) Covered Payroll	Not Available
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ({(a) – (b)} / (c)	Not Available

Section 10 – Required Supplementary Information (RSI)

Table 10.3 – Schedule of Funding Progress

Schedules of Funding Progress							
Retiree Medical Plan	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
	7/1/2008	$2,203,445	$15,302,442	$13,098,997	14.4%	Not available	Not available

Section 11 – Governmental Accounting Standards Board Statement No. 45 and No. 43

Background: Other Post-Employment Benefits (OPEB)s for public sector plans were previously reported on a pay-as-you-go ("pay-go") basis prior to the issuance of GASB 43 and GASB 45.

Purpose: Public sector plans are now required to recognize costs for OPEBs on an accrual basis.

The Governmental Accounting Standards Board (GASB) issued Statement No. 45 ("GASB 45"), "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." And Statement No. 43 ("GASB 43"), "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans".

All public sector employers with OPEBS will be required to report the cost of these plans on their balance sheets (GASB 45). All public sector plans with OPEB benefits that are pre-funded or administered through a separate trust will be required to report the cost on their balance sheets (GASB 43).

Effective Date: The effective date for implementation is based on the annual revenues of the largest participating employer, for the following effective dates. 1

Revenues (for Fiscal Year ending after 6/15/1999)	GASB 45 - Employer	GASB 43 – Plan Required if Funding
	Fiscal Year Beginning After	
$100 million +	December 15, 2006	December 15, 2005
$10 million - $100 million	December 15, 2007	December 15, 2006
Less than $10 million	December 15, 2008	December 15, 2007

[1] GASB encourages earlier implementation.

Key Terminology:

Present Value of Benefits ("PVB") – Past service liability plus future service liability to be earned under the plan.

Normal Cost ("NC") –Present value of benefits attributed to service in the current year.

Annual OPEB Cost ("AOC") – Annual cost of OPEB (approximately the NC plus an amortization of unfunded liability.

Net OPEB Obligation ("NOO") – Balance sheet liability accrued to date. Each year the Net OPEB Obligation increases by the AOC, and decreases by employer contributions (or net benefit payments in the case of an unfunded plan).

Required Supplementary Information ("RSI") – Historical information about plan assumptions; three year schedule of unfunded liability. Plans with benefits that are pre-funded also report additional items such as a statement of plan net assets, changes in net assets, and a three year schedule of funding progress and employer contributions.