MONTGOMERY COUNTY GOVERNMENT

Post-Employment Benefits Other than Pension Actuarial Valuation

Methods and Assumptions

November 2006

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This report presents the June 30, 2006 Actuarial Valuation results for the ***Montgomery County Government (the County)*** Post-Employment Benefit (Other than Pension) Plans. The purposes of this report are to:

(1) Determine the Plan's July 1, 2006 obligations;

(2) Determine the County's 2006/07 Fiscal Year accrual as if the *Governmental Accounting Standards Board (GASB*) Standard is adopted for this Fiscal Year based on GASB Statements 43 and 45; and

(3) Provide information that may be helpful in future planning for the Post-Employment Benefit Plans.

A summary of the major results is shown in the Executive Summary, while the Principal Valuation Results Section provides more detail.

The Accounting Information Section summarizes GASB *Other Post-Employment Benefit (OPEB)* accounting treatment including the 2006/07 accrual and projected June 30, 2007 reserves.

This report's costs and liabilities are based upon the data and plan provisions provided by the County, as summarized in the Demographic Information and Plan Provisions Sections, respectively, and the funding method and actuarial assumptions outlined in the Methods and Assumptions Section of this report. This report presents our best estimate of the costs of the Post-Employment Benefit Plans in accordance with accepted actuarial principles and our understanding of GASB Statements 43 and 45.

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Executive Summary

Montgomery County Government (the County) provides healthcare, prescription drug and life insurance benefits to retirees and their dependents. The County pays a portion of the cost for retirees, disabled retirees, spouses and dependents. All full time active employees who retire under a Normal, early, disability or discontinued service retirement are eligible for benefits.

Information on Plan Provisions and participation was provided by the County. Where information provided was incomplete, we have made assumptions. Please see Pages 17 through 24 for a full list of the assumptions used.

Based on verbal discussions with GASB representatives, we have utilized the Phase–in Funding Approach.

This method is based on the proposed argument that, if a written policy is adopted by a plan sponsor to phase-in full funding of the Annual Required Contribution (ARC) over a period of years, then it is reasonable to utilize a discount rate based on the weighting of the present value of benefits using applicable discount rates throughout the phase-in period.

Since the majority of future benefits become payable after the phase-in period, the majority of liabilities are based on the discount rate after fully funding the ARC is in place. Therefore, the primary weighted discount rate that applies under this phased-in funding approach is very close to the full-funding discount rate.

We have translated this approach to indicate the following in terms of applicable discount rates:

Approach	Applicable Discount Rate
No Pre-Funding	4.00%
Full Pre-Funding	8.00%
3 Year Phase-In	7.75%
5 Year Phase-In	7.50%

Executive Summary (continued)

The following table summarizes the valuation results. These results have been calculated based upon assumptions as to current claim cost, projected increases in health care costs, morbidity, turnover, and interest discount.

This summary identifies the value of benefits at June 30, 2006 and costs for the 2006/07 Fiscal Year reflecting the unfunded liability (UAAL) amortized as a level percentage of pay:

RESULTS AS OF JULY 1, 2006 ($000s omitted)				
Funding Approach	**Full Pre- Funding**	**No Pre-Funding**	**Phased-in Funding – 5 Years**	**Phased-in Funding – 3 Years**
Discount Rate	8.00%	4.00%	7.50%	7.75%
	$	$	$	$
Present Value of all Projected Benefits (PVPB)	1,374,805	3,073,901	1,498,279	1,434,559
Actuarial Accrued Liability (AAL)	1,158,928	2,365,249	1,251,358	1,203,787
AAL as a Percent of PVPB (AAL / PVPB)	84.3%	76.9%	83.5%	83.9%
Annual OPEB Cost (AOC)				
- of Unfunded AAL	63,782	75,945	64,817	64,287
- Normal Cost (End-of-Year)	29,336	83,002	33,411	31,307
- Total	93,118	158,947	98,228	95,594
2006/07 Expected Benefit Payments *	24,509	24,509	24,509	24,509
2006/07 Expected Additional Contributions	68,609	0	14,744	23,695
2006/07 Expected Net OPEB Obligation (NOO)	0	134,438	58,975	47,390
* **Expected pay-as-you -go benefit payments for 2006/07, provided by the County.**				

The balance of this report provides greater detail for the above results.

See the GASB OPEB Summary Section for more detail.

Principal Valuation Results

This section presents detailed valuation results for the County's retiree Post-Employment Benefits programs.

- The Present Value of all Projected Benefits (PVPB) is the total present value of all expected future benefits, based on certain actuarial assumptions. The PVPB is a measure of total liability or obligation. Essentially, the PVPB is the value (on the valuation date) of the benefits promised to current and future retirees.

- The Actuarial Accrued Liability (AAL) is the liability or obligation for benefits earned through the valuation date, based on certain actuarial methods and assumptions.

- Normal Cost is the value of benefits expected to be earned during the year, again based on certain actuarial methods and assumptions.

This report develops the AAL and Normal Cost using the Projected Unit Credit actuarial cost method.

Principal Valuation Results (continued)

The following highlights the County's recognition of the above amounts:

- The July 1, 2006 assets are $0.*
- The 2006/07 Annual Required Contribution (ARC) is equal to the Annual OPEB Cost (AOC) in the first year the Standard is adopted.
- Expected 2006/07 benefit payments are $24,509,210.

The following table shows results by active medical, retiree medical, prescription drug (Rx), dental, and life insurance.

RESULTS AS OF JULY 1, 2006 ($000s omitted)				
Funding Approach	**Full Pre- Funding**	**No Pre-Funding**	**Phased-in Funding – 5 Years**	**Phased-in Funding – 3 Years**
Discount Rate:	8.00%	4.00%	7.50%	7.75%
	$	$	$	$
Present Value of Projected Benefits (PVFB)				
Active Medical	518,889	1,332,090	575,372	546,149
Retiree Medical	317,054	522,117	334,599	325,623
Rx	408,183	942,275	446,809	426,868
Dental	65,774	142,849	71,410	68,502
Life Insurance	64,905	134,570	70,089	67,417
Total	1,374,805	3,073,901	1,498,279	1,434,559
Actuarial Accrued Liability (AAL)				
Active Medical	386,574	899,720	424,135	404,754
Retiree Medical	317,054	522,117	334,599	325,623
Rx	340,369	716,841	369,080	354,298
Dental	56,204	111,409	60,464	58,272
Life Insurance	58,727	115,162	63,080	60,840
Total	1,158,928	2,365,249	1,251,358	1,203,787
Assets	0	0	0	0
Unfunded AAL	1,158,928	2,365,249	1,251,358	1,203,787
Normal Cost	29,336	83,002	33,411	31,307

*** Under the proposed GASB Standard, only funds set aside exclusively to pay Plan benefits are considered Plan assets.**

Accounting Information

The effective date for the new GASB OPEB accounting standard is the fiscal year beginning July 1, 2007. Adoption before this fiscal year is optional. The following shows the Annual Required Contribution (ARC), Annual OPEB Cost (AOC), and June 30, 2006 Net OPEB Obligation (NOO), assuming the accounting standard is first adopted for fiscal year 2006/07.

Annual Required Contribution (ARC)

The proposed Standard sets the method for determining the County's retiree Post-Retirement Benefits accrual to include both the value of benefits earned during the year (Normal Cost) and an amortization of the Unfunded Actuarial Accrued Liability (AAL). Accordingly, the following table shows the County's 2006/07 accrual based on an open-period 30-year amortization of the unfunded AAL as a level percentage of pay.

FISCAL YEAR ENDING JULY 1, 2006 ($000s omitted)				
Funding Approach	Discount Rate %	Normal Cost $	Unfunded AAL Amortization $	Total Accrual $
Full Pre-Funding	8.00	29,336	63,782	93,118
No Pre-Funding	4.00	83,002	75,945	158,947
Phased-In Funding – 5 Years	7.50	33,411	64,817	98,228
Phased-In Funding – 3 Years	7.75	31,307	64,287	95,594

Accounting Information (continued)

Annual OPEB Cost (AOC)

If there is no OPEB obligation on the County's financials at transition, then the Annual OPEB Cost (AOC) is equal to the ARC. However, if there is an initial obligation at transition, the AOC should reflect an adjustment for the transition obligation. Note that the GASB OPEB Statements in general directs sponsors to set their initial OPEB obligation to zero at transition. However, this may result in awkward accounting results. We recommend you discuss this issue with your auditors if an obligation is currently recorded.

FISCAL YEAR ENDING JULY 1, 2006 ($000s omitted)				
Funding Approach	Discount Rate %	ARC $	Adjustment to ARC $	Total AOC $
Full Pre-Funding	8.00	93,118	0	93,118
No Pre-Funding	4.00	158,947	0	158,947
Phased-In Funding – 5 Years	7.50	98,228	0	98,228
Phased-In Funding – 3 Years	7.75	95,594	0	95,594

AOC Summary (After adoption, a multiple year display will be shown):

FISCAL YEAR ENDING JULY 1, 2006 ($000s omitted)					
Funding Approach	Discount Rate %	AOC $ (a)	2006/07 Expected Benefit Payments $ (b)	2006/07 Expected Additional Contributions $ (c)	2006/07 Expected Net OPEB Obligation (NOO) $ (a) – (b) – (c)
Full Pre-Funding	8.00	93,118	24,509	68,609	0
No Pre-Funding	4.00	158,947	24,509	0	134,438
Phased-In Funding – 5 Years	7.50	98,228	24,509	14,744	58,975
Phased-In Funding – 3 Years	7.75	95,594	24,509	23,695	47,390

Accounting Information (continued)

Required Supplementary Information

Below is the Projected Schedule of Funding Progress (000s omitted):

FISCAL YEAR ENDING JULY 1, 2006 ($000s omitted)							
Alternative Funding Approach	Discount Rate %	Actuarial Value of Assets $ (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit $ (b)	Unfunded AAL (UAAL) $ (b) - (a)	Funded Ratio % (a) / (b)	Covered Payroll $ (c)	UAAL as a Percentage of Covered Payroll % [(b) - (a)] / (c)
Full Pre-Funding	8.00	0	1,158,928	1,158,928	0.00%	555,035*	208.8*
No Pre-Funding	4.00	0	2,365,249	2,365,249	0.00%	555,035*	426.1*
Phased-In Funding - 5 Years	7.50	0	1,251,358	1,251,358	0.00%	555,035*	225.5*
Phased-In Funding - 3 Years	7.75	0	1,203,787	1,203,787	0.00%	555,035*	216.9*

***Required disclosure at adoption of standard.**

Payout Projection

Annual Payments expected based on assumptions and contributions detailed in the Methods and Assumptions Section.

Year Ending	($000s omitted) $
06/30/2006	33,264
06/30/2007	39,374
06/30/2008	45,644
06/30/2009	52,202
06/30/2010	59,174
06/30/2011	65,074
06/30/2012	71,191
06/30/2013	77,429
06/30/2014	83,763
06/30/2015	89,806
06/30/2016	95,444
06/30/2017	101,260
06/30/2018	107,222
06/30/2019	112,866
06/30/2020	118,438

Demographic Information

The following table summarizes active and retiree demographic information.

Number of Employees				
	Actives*	**Retirees**	**Retiree Spouses**	**Total**
Medical	9,350	3,846	2,144	15,340
Rx	9,350	2,072	1,625	13,047
Dental	9,350	4,034	2,120	15,504
Life	9,350	3,929	N/A	13,279

* **Assumed that 90% of these active employees will have coverage at retirement.**

Summary of Plan Provisions

Plan	CareFirst Blue Cross–Blue Shield POS, CareFirst Blue Cross-Blue Shield Indemnity (closed to new members), Kaiser HMO, Optimum Choice HMO, Caremark Prescription Drug, UCCI Dental PPO, and NVA Vision. These are single employer plans.
Eligibility	County employees are eligible to continue each group insurance coverage after retirement provided that: (a) Employees in the ERS Plan retire directly from County service. (b) Employees in the RSP Plan meet certain age-service requirements.
Coverage of Spouse and Dependent After Death of Retiree	The surviving spouses and dependent children who are covered under any of County sponsored health plans have the right to continue coverage upon the death of the County employee/retiree.

Summary of Plan Provisions (continued)

Medical	CareFirst Blue Cross-Blue Shield Indemnity	Kaiser HMO	Optimum Choice HMO
General Limits			
Individual Deductible	$200	None	None
Family Deductible	$400	None	None
Individual Out-of-Pocket Maximum	$1,000	N/A	$1,100
Family Out-of-Pocket Maximum	$2,000	N/A	$3,600
Lifetime Maximum Benefit	$1,000,000 for Major Medical services	None	None
Physician Charges			
Primary Care Physician Office Visit	80% after deductible	$5 copay	$5 copay
Specialist Office Visit	80% after deductible	$5 copay	$10 copay
Inpatient Services			
Inpatient Hospitalization	Covered at 100%; 180 day maximum per confinement	Covered at 100%	Covered at 100%
Skilled Nursing Facility	$30/day, up to 360 days per calendar year; $10,800 annual maximum	Covered at 100%, 100 day maximum	Covered at 100%, 60 day maximum

Summary of Plan Provisions (continued)

Medical	CareFirst Blue Cross-Blue Shield Indemnity	Kaiser HMO	Optimum Choice HMO
Outpatient Services			
Mental Health	Inpatient: 100% to 180 days Outpatient: 80% after deductible	Inpatient: 100% Outpatient: $20 copay per individual visit, $10 copay per group visit	Inpatient: 100% Outpatient: Visits 1-5: 20% copay Visits 6-30: 35% copay Visits 31+: 50% copay
Out-Patient Surgery	100% up to amount allowed by plan	Covered 100%	$25 co-pay applies
Emergency Room Visits	100% if life-threatening or accidental injury 80% after deductible for illness	$50 per visit (waived if admitted)	$25 per visit (waived if admitted); must meet plan definition of an emergency
Prescription Drugs	80% after deductible	$5 copay, on-site pharmacies and mail order $15 copay, participating pharmacies	N/A

Summary of Plan Provisions (continued)

Medical	CareFirst Blue Cross-Blue Shield POS (In-Network, In-Service Area)	CareFirst Blue Cross-Blue Shield POS (In-Network, Out of Service Area)
General Limits		
Individual Deductible	None	None
Family Deductible	None	None
Individual Out-of-Pocket Maximum	$1,000 plus the annual deductible	$1,000 plus the annual deductible
Family Out-of-Pocket Maximum		
Lifetime Maximum Benefit	None	$2,000,000
Physician Charges		
Primary Care Physician Office Visit	$10 copay (High Option); $15 copay (Standard Option)	$10 copay (High Option); $15 copay (Standard Option)
Specialist Office Visit	$10 copay (High Option); $30 copay (Standard Option)	$10 copay (High Option); $30 copay (Standard Option)
Inpatient Services		
Inpatient Hospitalization	Covered at 100% (High Option) Covered at 100% after $150 copay (Standard Option)	Covered at 100% (High Option) Covered at 100% after $150 copay (Standard Option)
Skilled Nursing Facility	Covered at 100% (100 day annual maximum)	Covered at 100% (60 day annual maximum)

Summary of Plan Provisions (continued)

Medical	CareFirst Blue Cross-Blue Shield POS	CareFirst Blue Cross-Blue Shield POS
Outpatient Services		
Mental Health	Visits 1 - 5: Covered at 100% Visits 6 +: Covered at 70%	Visits 1 - 5: Covered at 100% Visits 6 - 30: Covered at 80% Visits 31+: Covered at 50%
Out-Patient Surgery	Covered at 100%	Covered at 100%
Emergency Room Visits	$25 copay (High Option); $35 copay (Standard Option) waived if admitted	$50 copay; waived if admitted
Prescription Drugs	N/A	N/A

Summary of Plan Provisions (continued)

Prescription Drug	Caremark Standard Option	Caremark High Option
Copays	$10 generic $20 brand formulary $35 brand, non-formulary Retail up to 34-day supply Mail Order up to 102-day supply	$4 generic $8 brand Retail up to 34-day supply Mail Order up to 102-day supply
Annual Deductible	$50	None

Dental		
	Deductible	$50 Individual; $150 Family (does not apply to Class I services)
	Maximum Annual Benefit	$2,000 per person (Excluding Class IV services)
	Class I	Covered at 100% of reasonable and customary charges
	Class II (Basic)	Covered at 80% of reasonable and customary charges
	Class III (Major)	Covered at 60% of reasonable and customary charges
	Class IV (Orthodontics)	Covered at 60%; Lifetime maximum of $1,000

Summary of Plan Provisions (continued)

Vision	
	Retirees may elect the discount vision plan Retirees receive routine eye exams, lenses and frames at discount prices

Methods and Assumptions

Actuarial Method

Projected Unit Credit Cost Method.

Normal Cost

Determined for each active employee as the Actuarial Present Value of benefits allocated to the valuation year. The benefit attributed to the valuation year is that incremental portion of the total projected benefit earned during the year in accordance with the plan's benefit formula. This allocation is based on each individual's service between date of hire and date of full benefit eligibility.

Accrued Actuarial Liability (AAL)

The Actuarial Present Value of Benefits allocated to all periods prior to the valuation year.

Discount Rate

The discount rate varies depending on the assumption for funding:

	%
Full Pre-Funding	8.00
No Pre-Funding	4.00
Phased-In Funding Over 5 Year Period*	7.50
Phased-In Funding Over 3 Year Period*	7.75

* **NOTE:** **The method used to develop the discount rates under these approaches has not yet been officially sanctioned by GASB; this issue is still being pursued.**

Salary Scale

4.25%

Methods and Assumptions (continued)

Medical, Prescription Drug and Dental Trends

ANNUAL RATE OF INCREASE %					
Fiscal Year Beginning in	Dental	Prescription Drugs	Medical Pre-65	Medical 65 +	Indemnity (w/Rx)
2006	6.5	12.0	12.0	10.0	13.0
2007	6.0	11.0	11.0	9.0	12.0
2008	5.5	10.0	10.0	8.5	11.0
2009	5.0	9.0	9.0	8.0	10.0
2010	4.5	8.0	8.0	7.5	9.0
2011	4.5	7.0	7.0	7.0	8.0
2012	4.5	6.5	6.5	6.5	7.0
2013	4.5	6.0	6.0	6.0	6.5
2014	4.5	5.5	5.5	5.5	6.0
2015	4.5	5.0	5.0	5.0	5.5
2016 & Later	4.5	5.0	5.0.	5.0	5.0

Mortality -

Pre-Retirement; Healthy Retirees and Beneficiaries — RP-2000 Mortality Table, projected 10 years, with separate tables for males and females.

Disabled Retirees — RP-2000 Mortality Table set forward 5 years, with separate tables for males and females.

Turnover — Sample rates are shown below

ASSUMED ANNUAL TERMINATIONS PER 1,000 MEMBERS		
Years of Service	Non-Public Safety %	Public Safety %
0 - 4	35	80 - 29
5 - 9	35	22 - 14
10 - 14	17	13 - 6
15 - 19	17 - 11	5 - 3
20 - 25	11 - 6	2
26+	6	0

Methods and Assumptions (continued)

Retirement Age - Sample rates are shown below:

Non-Public Safety

Age	First Eligibility for Normal Retirement %	Ultimate Retirement Rate %
45 - 49	1	1
50 - 54	5	5
55 - 59	20	8
60 - 64	15	15
65 - 66	50	40
67	75	40
68 - 69	100	40
70+	100	100

Public Safety

Age	Group G First Eligibility for Normal Retirement %	Public Safety Except Group G First Eligibility for Normal Retirement %	Ultimate Retirement Rate* %
Under 45	30	3	3
46 - 49	30	20	10
50 - 51	30	30	15
52 - 54	30	30	30
55- 59	75	75	75
60+	100	100	100

* **Group G retirees are assumed to retire at a rate that is the larger of 20% and the rates shown above when they reach 25 years of service.**

Methods and Assumptions (continued)

Disability

Sample rates are shown below:

ANNUAL DISABILITIES PER 1,000 MEMBERS AT SAMPLE AGES				
Age	Non-Public Safety		Public Safety	
	Male	Female	Male	Female
20	1	1	1	1
25	2	1	3	3
30	2	2	6	8
35	3	3	8	12
40	3	3	10	16
45	6	3	19	22
50	7	5	32	29
55	5	6	39	31
60	9	6	47	32
65	0	0	0	0

Age Difference/ % Married

Males are assumed to be 3 years older than females; 60% of active members are assumed to be married at retirement.

Coverage

We assumed that 90% of current active employees will be covered at retirement, and that they will elect the benefit plans in the same proportion as current retirees. For current retirees, we have valued only those who have current coverage elections, with the assumption that retirees without coverage will not elect coverage in the future.

Methods and Assumptions (continued)

Morbidity - Expected claims are assumed to increase as participants age as follows:

Medical

Age	Annual Increase %
To 34	2.7
35 - 39	5.4
40 - 44	1.8
45 - 49	4.3
50 - 54	2.8
55 - 59	2.6
60 - 64	4.0
65 - 69	3.5
70 - 74	3.3
75 and Older	0.0

Prescription Drugs

Age	Annual Increase %
To 54	5.0
55 - 74	1.0
75	0.0
76	-1.0
77	-2.0
78 - 84	-3.0
85 and Older	-2.0

Initial Baseline Costs (Fiscal Year 2007) See Page 23.

Annual Baseline Retiree Contributions (Fiscal Year 2007) See Page 24.

Methods and Assumptions (continued)

Valuation Methodology and Terminology	We have used proposed GASB accounting methodology to determine the post-retirement medical benefit obligations.
Amortization Period	The period used to determine amortization costs for the initial Unfunded Actuarial Accrued Liability is an open period of 30 years.
Life Insurance Coverage	All participants are assumed to have life insurance coverage upon retirement.

Methods and Assumptions (continued)

INITIAL BASELINE COST (Fiscal Year 2007)							
Age	Optimum Choice HMO $	Kaiser $	CareFirst Indemnity $	CareFirst POS $	Actives Medical* $	Dental $	Prescription Drugs $
25	1,716	2,430	2,844	1,716	1,759	410	522
30	1,956	2,770	3,242	1,960	2,008	410	666
35	2,540	3,596	4,209	2,240	2,384	410	850
40	2,780	3,937	4,607	2,913	2,947	410	1,084
45	3,432	4,860	5,688	3,185	3,337	410	1,384
50	3,947	5,589	6,541	3,875	3,993	410	1,766
55	4,496	6,367	7,451	4,440	4,567	410	2,169
60	5,457	7,727	9,044	5,117	5,345	410	2,279
65	2,628	2,711	3,341	2,371	2,446	410	2,396
70	3,184	3,284	4,047	2,816	2,922	410	2,518
75+	3,739	3,858	4,754	3,207	3,358	410	2,620

* Weighted average reflecting health plan elections of current retirees.

Methods and Assumptions (continued)

AVERAGE ANNUAL BASELINE RETIREE CONTRIBUTIONS (Fiscal Year 2007) *						
Current Retirees						
	Optimum Choice HMO $	Kaiser $	CareFirst Indemnity $	CareFirst POS $	Prescription Drugs $	Dental $
Pre-65	917	1,360	2,551	1,261	479	133
Post-65	840	1,033	1,560	786	720	133

For purposes of this valuation, we applied the following service-based, cost-sharing percentages to the costs below for future retirees:

Service at Retirement	Retiree Contribution %
Less than 5 Years	100
Up to 9 years	46
Up to 14 Years	36
Over 15 Years	30
Or if hired prior to 01/01/87	20

	Medical $	Prescription Drugs $	Dental $
Pre-65	4,080	1,739	410
65 +	2,444	2,152	410

GASB OPEB Summary

The Governmental Accounting Standards Board (GASB) has issued Statements No. 43 and 45 for the recognition and disclosure for public entities sponsoring other (than pensions) post-retirement benefit plans.

This Exhibit summarizes pertinent issues from the above statements and includes comments about GASB's OPEB Standard.

Why Pay-As-You-Go Accounting Will Be Unacceptable

The GASB believes, like the FASB, that other post-retirement benefits, like pensions, are a form of deferred compensation. Accordingly, GASB is saying these benefits should be recognized (in an organization's financial statement) when earned by employees, rather than when paid out. Under SFAS 106, pay-as-you-go accounting is replaced with accrual accounting for these benefits. *This approach is similar to (although more restrictive than) GASB's approach under Statements No. 43 and 45*.

Allocating Costs (Attribution)

The FASB defines attribution as the process of assigning other post-retirement benefit cost to periods of employee service. SFAS 106 specifies how (the attribution method) and over what accounting periods (the attribution period) the post-retirement benefits promise must be allocated.

The attribution (actuarial cost) method specified by SFAS 106 is the "projected unit credit actuarial cost method". This method attributes an equal amount of the total post-retirement benefit to each year of service during the "attribution period".

The attribution period is the period over which the total post-retirement benefit is earned. Unless the plan states that post-retirement benefits are not earned until a later date, the attribution period is from the employee's hire date until the employee is first eligible for the benefit. *The GASB Statements do not restrict entities to a single attribution method, but instead allows sponsors (and actuaries) to choose from several acceptable methods (similar to GASB 27).* GASB allows six funding methods and also allows attribution to the expected retirement age rather than the earliest eligibility age.

GASB OPEB Summary (continued)

Defining the Plan

SFAS 106 refers to the substantive plan as the basis for accounting. The substantive plan may differ from the written plan in that it reflects the employer's cost sharing policy based on past practice or communication of intended changes, or a past practice of cost increases in monetary benefits. Under SFAS 106, the substantive plan is the basis for allowing recognition of potential future changes to the plan. *GASB follows FASB's lead on this issue, requiring entities to recognize the underlying promise, not just the written plan.*

One GASB requirement relates to the implied subsidy when retirees participate in the active healthcare plan, but are charged a rate based on composite active and retiree experience. Under the GASB standard, even if an organization does not otherwise subsidize the benefit, then the organization will have to recognize an OPEB obligation for the implied subsidy.

Actuarial Assumptions

SFAS 106 says actuarial assumptions should be explicit. This means each individual assumption should represent the actuary's best estimate. GASB also, generally, requires explicit assumptions.

GASB requires the discount rate be based on the source of funds used to pay the benefits. This means the underlying expected long-term rate of return on plan assets for funded plans. However, since the source of funds for unfunded plans is usually the organization's general fund, and organizations are usually restricted by State law as to what investments they can have in their general fund, unfunded plans will need to use a relatively low discount rate.

GASB OPEB Summary (continued)

Transition Issues

Because historical annual required contribution information will rarely be available, GASB is taking a prospective approach on transition issues. This means there will be no requirement for any initial transition obligation.

Effective Dates

The new Standard will have staggered effective dates, similar to GASB Statement No. 34, as follows:

	Annual Revenue	Effective for Fiscal Years Beginning After
Phase I	≥ $100 million	December 15, 2006
Phase II	≥ $10 million but < $100 million	December 15, 2007
Phase III	< $10 million	December 15, 2008

GASB OPEB Summary (continued)

Differences Between SFAS 106 and GASB 43 and 45

Conceptually, GASB No. 43 and 45 are similar to SFAS 106. They require current recognition of the promise to pay future benefits. However, they differ somewhat in how that recognition should occur. Specifically:

		SFAS 106	GASB 43 and 45
(1)	Attribution Method	Mandates use of a particular method, regardless of method used to determine contribution.	Allows sponsor to use same method used to determine contribution, provided it meets certain criteria.
(2)	Assumptions (excluding discount rate)	Requires each assumption stand on its own – Explicit assumptions.	Requires each assumption stand on its own and, in addition, meet certain other criteria.
(3)	Discount Rate	Long term high quality bond rates (e.g., Moody Aa).	Expected long-term rate of return on source used to pay benefits (e.g. sponsor's general fund).
(4)	Benefit Cost	Mandates use of a specific method, regardless of method used to determine contribution.	Provides that if entity always contributes Annual Required Contribution (ARC) then benefit cost equals ARC. If entity does not contribute ARC, then benefit cost equals ARC, adjusted for the difference.
(5)	Annual Required Contribution	N/A	The Plan's funding contribution, with actuarial assumptions and methods (including amortization periods) restricted as indicated above.
(6)	Liability Recognition	The historical difference between actual contributions and benefit costs become an accrued liability (or prepaid asset) on the sponsor's financial statement.	If sponsor consistently contributes the ARC, then no recognition is required. However, if sponsor has not historically contributed the ARC, then difference becomes a Net Obligation on the sponsor's financial statement.