MFP COMMITTEE #2
November 10, 2003

MEMORANDUM

November 6, 2003

TO: Management and Fiscal Policy Committee

FROM: Stephen B. Farber, Council Staff Director SBF

SUBJECT: Proposed GASB Standards on Retiree Health Insurance

This year the Committee has grappled with a number of difficult group insurance issues affecting all agencies. In late April the Committee made, and the Council approved, a series of recommendations for FY04 that were based in part on a report prepared by Thomas Lowman and his colleague, Mark Lynne, of Bolton Partners in consultation with group insurance experts from each agency. On July 21 and October 27 the Committee met to consider next steps.

On December 1 the Committee will meet again to craft policy guidance for agency group insurance programs. The Committee will benefit from the work of the Task Force on Health Benefit Improvements, which was formed in April by Council President Subin and is chaired by Wendell M. Holloway.

A key longer-term issue raised by the Bolton Partners report is how to address the fiscal implications of post-employment benefits other than pensions (OPEB) – chiefly retiree health and life insurance benefits. Exposure drafts issued by the Governmental Accounting Standards Board on February 14, 2003 proposed accounting and financial reporting standards related to these benefits. The effective date for large jurisdictions was to be FY07 (and may be delayed until FY08), but the Committee wanted to understand the implications of the proposed standards, including issues of pre-funding, this year and to have the agencies' view of how best to proceed.

At the Committee's request, agency budget, finance, and benefits staff met (on June 4, July 9, and October 22) to develop a common understanding of relevant issues. They also took an important step by obtaining updated valuations of their retiree group insurance obligations. The report prepared by Mercer Human Resource Consulting is attached on ©N-61. Preceding it on ©A-M is a slide presentation that summarizes the report. Douglas Rowe and his colleagues from Mercer will be present to discuss the report. Bryan Avant of Bolton Partners will also join the Committee, as will budget, finance, and benefits experts from all agencies.

The proposed GASB standards raise major fiscal questions. The purpose of this Committee meeting is not to definitively answer those questions – there are too many options and unknowns at this point – but to focus on steps that should be taken next.

The slides on ©A-M provide a good introduction to the issues. Several slides of are of particular interest:

• ©H, which illustrates the huge estimated annual required contribution (ARC) for FY04 if the exposure drafts had been effective July 1, 2003;

• ©K, which describes options – including different kinds of benefit reductions – that other employers are considering;

• ©L, which summarizes arguments for and against pre-funding; and

• ©M, which provides a reality check as to what could change.

The Mercer report on ©N-61 contains a wealth of information. Of special note are:

• ©1, which summarizes the report's highlights;

•©2, which summarizes key valuation results for all agencies, with and without pre-funding, for actuarial accrued liability (AAL) as of July 1, 2003 and the annual required contribution (ARC);

• ©6, which provides further detail on AAL for all agencies;

• ©56-58, which discuss funding options, including arguments for and against pre-funding; and

• ©59-61, which describe the Health Care Savings Plan established by the Minnesota State Retirement System.

f:\farber\04compensation\gasb standards review 11-10-03.doc

MERCER

Human Resource Consulting

November 2003

Montgomery County Agencies

Post-Employment Benefits other than Pensions

MMC Marsh & McLennan Companies

A

Background

- GASB exposure drafts issued February 14, 2003
- Two exposure drafts
  - Accounting and Financial Reporting by Employers for OPEB
  - Financial Reporting for OPEB Plans
- Comment period expired April 30, 2003
- Effective date for large jurisdictions
  - Originally fiscal years beginning after June 15, 2006
  - Apparently to be delayed one year

Plans Covered

- Postretirement health benefits (e.g., medical, Rx, vision, dental, hearing)
- Postretirement life insurance benefits
- Legal benefits
- Other benefits

Requirements of Proposed Standards

- Accrual of postretirement benefit cost during period of active employment
- Disclosure of unfunded actuarial accrued liability in Required Supplementary Information (RSI)
- Does not require funding, only accrual as expense and disclosure

Actuarial Methodology and Assumptions

- Similar to GASB 27 for pension plans
- Permits any of six actuarial cost methods
- Plan assets must be segregated and restricted in a trust
- Generally use similar assumptions as pension valuations for interest rate, turnover, mortality, etc.
- However, due to the high cost of coverage prior to Medicare, retiree medical liabilities are much more sensitive to retirement rate assumptions
- Also need assumptions for claims rates, claim rate trend, and percentage participation for retirees and dependents

Interest Rate

- Estimated long-term yield on investments expected to be used to finance benefits
- Funded plans: expected yield on plan assets
- Unfunded plans: expected yield on employer assets
- Partially funded plan: proportionate combination of the two
- May cause more plans to become funded in order to be able to use higher interest rate

F

Trend Rate Assumptions

	Medical-only	Prescription Drugs-only	Medical and Prescription Drugs	Dental
1st year	12.00%	15.00%	13.50%	8.50%
2nd year	11.00%	14.00%	12.50%	8.00%
3rd year	10.00%	13.00%	11.50%	7.50%
4th year	9.00%	11.50%	10.25%	7.00%
5th year	8.00%	10.00%	9.00%	6.50%
6th year	7.00%	8.50%	7.75%	6.00%
7th year	6.00%	7.00%	6.50%	5.50%
8th year and thereafter	5.50%	5.50%	5.50%	5.50%

9

Estimated Annual Required Contribution

Reported Expense (Annual Required Contribution = ARC)
for FY2004 if Exposure Drafts had been effective July 1, 2003

(000's omitted)

	No pre-funding	Pre-funding
County	$ 113,183	$ 67,866
Schools	176,945	104,383
College	7,435	3,819
MNCPPC	27,588	14,437
WSSC	21,577	14,789
Total	$ 346,728	$ 205,294

H

6-year Projections

	County Only	
	With Pre-funding	Without Pre-funding
FY2004 ARC	$ 67,866	$ 113,183
FY2004 contribution	67,866	20,591 (claims only)
FY2010 ARC	83,183	164,324
- Increase	23%	45%
FY2010 Contribution	83,183	49,389 (claims only)
Funded Ratio	30%	0%
Net OPEB obligation in CAFR	$ 0	$607,043

Report shows each Agency

I

How Could It Cost So Much?

Based on Public Schools

(in millions)

1.	Pension normal cost	$15.6
2.	Employee contributions	4.4
3.	Amortization	0
4.	Total	$20.0
5.	Additional amortization if no assets	$43.0
6.	Revised total	$63.0
7.	Average medical benefit vs. average DB benefit	$5,147 / $4,416
8.	Employee plus spouse vs. employee alone	1.6 / 1

9.	Impact of 5.5% trend vs. 3% inflation	1.53
10.	Participation	90%
11.	Reduction for retiree contributions	.64
12.	Rough estimate of medical costs (6 x 7 x 8 x 9 x 10 x 11)	$103.5
13.	Result from direct calculations	$104.4

4

What are Others Doing?

Shift Cost to employees

- Eliminate benefits
  - Medical, dental, and/or life
  - All participants
  - Medicare-eligibles
  - Spouses
  - Future retirees
  - Future employees
- Decrease employer subsidy
  - $ cap (with or without defined trend)
  - Based on age and service at retirement
  - Lower dependent subsidy
  - Eliminate implied subsidy
- Benefit design
  - Deductibles, co-pays, and maximums
  - Medicare integration method
- Eligibility
  - Increase age and service requirements
- Account-based plan structure
  - Defined contribution approach
  - Premium reimbursement plan

K

What are Others Doing?

Consider Pre-funding

- Why pre-fund?
  - Reduce cost
  - GASB draft allows higher interest rate assumption
  - Increased participant security
- Why not pre-fund?
  - Better/more urgent use for cash
  - May imply greater long-term commitment to benefit plan
  - Don't have cash
- Funding vehicles
  - VEBA
  - Integral Part Trust
- Employee Contributions

What Could Change?

- Requirements of GASB statements
- Medicare
- Healthcare delivery in U.S.

November 2003

Postretirement Benefits Report As of July 1, 2003

Montgomery County Agencies
Postretirement Benefit Plans
Other Than Pensions

MERCER
Human Resource Consulting

MMC Marsh & McLennan Companies

N

Content

0

Content *(continued)*

P

Report Highlights

On February 14, 2003, the Governmental Accounting Standards Board (GASB) issued two exposure drafts that propose standards relating to other post-employment benefits (OPEB):

- Accounting and financial reporting by employers for post-employment benefits other than pensions
- Financial reporting for post-employment benefit plans other than pension plans.

For simplicity, the exposure drafts are referred to as "GASB" throughout this report.

Mercer Human Resource Consulting has prepared this report for the Montgomery County Agencies (the Agencies) to preview reporting and disclosure information for financial statements, governmental agencies and other interested parties, pursuant to these exposure drafts, relating to Montgomery County Agencies Postretirement Benefit Plans.

This report contains results of the July 1, 2003, actuarial valuation of postretirement benefits for Montgomery County Agencies. These benefits include medical, dental and life insurance.

The report is divided into sections which:

- Show the funded status as of July 1, 2003
- Develop the annual required contribution (ARC), for FY 2004, and
- Project the funded status and OPEB cost over a 6-year period.

This valuation is based on our understanding of the GASB exposure drafts, demographic and medical claims data from the Agencies, the applicable plan provisions, and the actuarial assumptions and methods as agreed upon by Mercer and the Agencies.

Results are shown assuming both pre-funding and no pre-funding.

Principal Valuation Results

Summary of key valuation results (000's omitted)

Assuming no pre-funding (4% return)

	July 1, 2003		2003 Annual Required Contribution (ARC)		
	Actuarial Accrued Liability (AAL)	Assets	Normal Cost	Amortization [a]	Total at End of Year
County	$ 1,182,006	$ 0	$ 69,279	$ 43,904	$ 113,183
Public Schools	2,027,328	0	101,643	75,302	176,945
College	102,930	18,092	4,284	3,151	7,435
MNCPPC	286,804	6,100 [b]	16,935	10,653	27,588
WSSC	418,130	0	6,046	15,531	21,577
Total	$ 4,017,198	$24,192	$ 198,187	$ 148,541	$ 346, 728

Assuming pre-funding (8% return)

	July 1, 2003		2003 Annual Required Contribution (ARC)		
	Actuarial Accrued Liability (AAL)	Assets	Normal Cost	Amortization [a]	Total at End of Year
County	$ 620,203	$ 0	$ 29,161	$ 38,705	$ 67,866
Public Schools	1,022,959	0	40,543	63,840	104,383
College	52,340	18,092	1,682	2,137	3,819
MNCPPC	137,195	6,100 [b]	5,875	8,562	14,437
WSSC	208,367	0	1,785	13,004	14,789
Total	$ 2,041,064	$ 24,192	$ 79,046	$ 126,248	$ 205,294

a 30-year, level percentage of pay
b These assets are budgeted to pay retiree medical expenses in FY2004 and were not reflected in ARC calculations

Certification

Mercer Human Resource Consulting has prepared this report for the Agencies to:

- Show the funded status as of July 1, 2003 of their postretirement benefit plans (other than pension),
- Calculate the Annual Required Contribution (ARC) for FY 2004 as if the GASB drafts had been effective July 1, 2003, and
- Project the funded status and OPEB cost over a 6-year period.

The information and valuation results shown in this report are, to the best of our knowledge, complete and accurate. The valuation is based on the following information and assumptions:

- Employee census data as of July 1, 2003, as submitted by the Agencies. Mercer did not audit this data, but it appears to be sufficient and reliable for purposes of the report;
- Actuarial methods and practices consistent with our understanding of GASB exposure drafts on OPEB;
- Actuarial assumptions that comply with the guidelines in the GASB exposure drafts on OPEB; and
- Plan provisions as summarized in this report.

Actuarial computations under GASB are for purposes of fulfilling certain employer accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of the GASB exposure drafts. Determinations for purposes other than allowing the Agencies to begin preparation for the employer financial accounting requirements of GASB may differ significantly from the results reported herein.

Certification *(continued)*

We are available to answer any questions on this material, or to provide explanations or further details, as may be appropriate. Collectively the undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.

	November 5, 2003
Steven P. Yaroch	**Date**
	November 5, 2003
Bruce Kangisser, ASA, MAAA	**Date**
	November 5, 2003
Douglas L. Rowe, FSA, MAAA, EA	**Date**

Mercer Human Resource Consulting
1255 23rd Street, NW, Suite 500
Washington, DC 20037
202 331 5200

Supplemental Information

The remainder of the report includes information supporting the results presented (in the previous sections).

- **Expense under GASB** shows the liabilities for plan benefits and the calculation of the various components of plan costs for accounting and disclosures.
- **Participant data** presents and describes the participant data used in the valuation.
- **Actuarial basis** describes the plan provisions, as well as the methods and assumptions used to value the plan. The valuation is based on the premise that the plan is ongoing.

Expense under GASB

Benefit Obligations at July 1, 2003

Actuarial Accrued Liability (AAL) as of July 1, 2003

	No Pre-funding (4%)			Pre-funding (8%)		
	Inactive	**Active**	**Total**	**Inactive**	**Active**	**Total**
County						
Medical	$ 354,179	$ 673,583	$ 1,027,762	$ 227,145	$ 312,891	$ 540,036
Dental	33,634	69,642	103,276	20,844	29,922	50,766
Life	41,441	9,527	50,968	24,853	4,548	29,401
Total	$ 429,254	$ 752,752	$ 1,182,006	$ 272,842	$ 347,361	$ 620,203
Public Schools						
Medical	$ 655,291	$ 1,217,097	$ 1,872,388	$ 409,545	$ 535,205	$ 944,750
Dental	24,896	44,025	68,921	15,830	19,408	35,238
Life	38,113	47,906	86,019	23,342	19,629	42,971
Total	$ 718,300	$ 1,309,028	$ 2,027,328	$ 448,717	$ 574,242	$ 1,022,959
College						
Medical	$ 20,315	$ 68,812	$ 89,127	$ 13,293	$ 31,569	$ 44,862
Dental	2,772	8,142	10,914	1,839	3,832	5,671
Life	1,066	1,823	2,889	721	1,086	1,807
Total	$ 24,153	$ 78,777	$ 102,930	$ 15,853	$ 36,487	$ 52,340
MNCPPC						
Medical	$ 68,535	$ 199,654	$ 268,189	$ 41,595	$ 86,686	$ 128,281
Dental	4,202	14,413	18,615	2,596	6,318	8,914
Life	N/A	N/A	N/A	N/A	N/A	N/A
Total	$ 72,737	$ 214,067	$ 286,804	$ 44,191	$ 93,004	$ 137,195
WSSC						
Medical	$ 176,926	$ 225,675	$ 402,601	$ 108,132	$ 91,709	$ 199,841
Dental	N/A	N/A	N/A	N/A	N/A	N/A
Life	8,807	6,722	15,529	5,770	2,756	8,526
Total	$ 185,733	$ 232,397	$ 418,130	$ 113,902	$ 94,465	$ 208,367

Expense under GASB *(continued)*

Annual Required Contribution/Annual OPEB Cost

This is the amount recognized in an employer's financial statements as the cost of the postretirement benefit plan. The components of the annual required contribution are as follows:

- Normal cost
- Amortization of Unfunded Actuarial Accrued Liability (UAAL)

When a Net OPEB Obligation (NOO) exists, the annual OPEB cost is equal to the ARC plus adjustments for:

- Amortization of the NOO
- Interest on the NOO

Each component is described below.

Normal cost

The normal cost is the portion of the actuarial present value of future benefits that is attributed to employee service during the year. The normal cost is based on the same assumptions used to calculate benefit obligations. Only active employees have a normal cost.

Amortization of Unfunded Actuarial Accrued Liability

Excess of actuarial accrued liability over the actuarial value of assets amortized over 30 years based on a level percentage of pay basis (pay assumed to increase 3.5% per year.) The actuarial accrued liability includes both active employees and retirees.

Interest on Net OPEB Obligation

Interest at the assumed rate of return is calculated on the NOO to reflect the lost opportunity for investment income.

Actuarial Cost Method

County and Public Schools use the Projected Unit Credit actuarial cost method for defined benefit funding purposes. College and MNCPPC use the Entry Age actuarial cost method for defined benefit funding purposes. WSSC uses the FIL- Entry Age actuarial cost method for defined benefit funding purposes. The actuarial cost method that is used for defined benefit calculation is also used for the retiree medical and life calculations for each agency.

Expense under GASB *(continued)*

2003 Total Annual Required Contributions (ARC) (000's Omitted)

Assuming no pre-funding (4% return)

	Normal Cost	Amortization	Total
County	$ 69,279	$ 43,904	$ 113,183
Public Schools	101,643	75,302	176,945
College	4,284	3,151	7,435
MNCPPC	16,935	10,653	27,588
WSSC	6,046	15,531	21,577
Total	$ 198,187	$ 148,541	$ 346,728

Assuming pre-funding (8% return)

	Normal Cost	Amortization	Total
County	$ 29,161	$ 38,705	$ 67,866
Public Schools	40,543	63,840	104,383
College	1,682	2,137	3,819
MNCPPC	5,875	8,562	14,437
WSSC	1,785	13,004	14,789
Total	$ 79,046	$ 126,248	$ 205,294

Expense under GASB *(continued)*

6-year Projection of Funded Status and OPEB Cost (000's Omitted)

County	2004	2005	2006	2007	2008	2009
Liabilities						
Actuarial Accrued Liability (8%)	$677,565	$736,693	$797,377	$859,582	$923,403	$989,103
Actuarial Accrued Liability (4%)	$1,277,561	$1,376,408	$1,478,456	$1,583,806	$1,692,702	$1,805,561
Assets						
With funding	$46,451	$94,476	$143,862	$194,569	$246,691	$300,486
Funded % as of July 1	7%	13%	18%	23%	27%	30%
OPEB Cost with funding						
Normal cost	$30,765	$32,457	$34,242	$36,126	$38,112	$40,209
Amortization and interest	39,386	40,079	40,784	41,502	42,232	42,975
Total annual required contribution	$70,151	$72,536	$75,026	$77,628	$80,344	$83,184
OPEB Cost without funding						
Normal cost	$73,090	$77,110	$81,351	$85,825	$90,545	$95,525
Amortization and interest	47,718	51,663	55,737	59,943	64,292	68,799
Total annual required contribution	$120,808	$128,773	$137,088	$145,768	$154,837	$164,324
Net OPEB Obligation	$92,592	$188,550	$287,796	$390,433	$496,711	$607,043

Public Schools	2004	2005	2006	2007	2008	2009
Liabilities						
Actuarial Accrued Liability (8%)	$1,032,605	$1,039,168	$1,045,606	$1,051,908	$1,058,601	$1,064,053
Actuarial Accrued Liability (4%)	$2,032,464	$2,037,497	$2,042,420	$2,047,231	$2,051,902	$2,056,435
Assets						
With funding	$78,656	$165,657	$254,064	$346,105	$440,845	$538,654
Funded % as of July 1	7%	14%	20%	25%	29%	34%
OPEB Cost with funding						
Normal cost	$42,773	$45,125	$47,607	$50,226	$52,988	$55,902
Amortization and interest	67,244	67,671	68,091	68,501	68,902	69,292
Total annual required contribution	$110,017	$112,796	$115,698	$118,727	$121,890	$125,194
OPEB Cost without funding						
Normal cost	$107,283	$113,131	$119,353	$125,918	$132,843	$140,150
Amortization and interest	81,260	87, 443	93,854	100,513	107,391	114,511
Total annual required contribution	$188,493	$200,574	$213,207	$226,431	$240,234	$254,661

Net OPEB Obligation	$144,187	$294,078	$449,780	$611,798	$779,408	$953,200

Expense under GASB *(continued)*

6-year Projection of Funded Status and OPEB Cost (000's Omitted)

College	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Liabilities						
Actuarial Accrued Liability (8%)	$56,828	$61,480	$66,332	$71,371	$76,583	$81,975
Actuarial Accrued Liability (4%)	$109,976	$117,257	$124,814	$132,636	$140,716	$149,067
Assets						
With funding	$21,979	$26,017	$30,245	$34,649	$39,215	$43,950
Funded % as of July 1 (using 8%)	39%	42%	46%	49%	51%	54%
Without future funding	$17,462	$16,523	$15,283	$13,694	$11,710	$9,301
Funded % as of July 1 (using 4%)	16%	14%	12%	10%	8%	6%
OPEB Cost with funding [a]						
Normal cost	$1,775	$1,872	$1,975	$2,084	$2,199	$2,319
Amortization and interest	2,175	2,213	2,252	2,292	2,332	2,373
Total annual required contribution	$3,950	$4,085	$4,227	$4,376	$4,531	$4,692
OPEB Cost without funding [a]						
Normal cost	$4,519	$4,768	$5,030	$5,307	$5,598	$5,906
Amortization and interest	3,454	3,777	4,123	4,493	4,887	5,309
Total annual required contribution	$7,973	$8,545	$9,153	$9,800	$10,485	$11,215
Net OPEB Obligation	$6,107	$12,475	$19,156	$26,152	$33,469	$41,134

a. College has 18,092,300 in assets for post retirement benefits as of 6/30/2003. These assets were reflected in ARC calculations. For the "without funding" projection, the assets were assumed to be used to pay retiree claim costs as soon as needed.

MNCPPC	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Liabilities						
Actuarial Accrued Liability (8%)	$151,123	$165,798	$181,239	$197,435	$214,408	$232,179
Actuarial Accrued Liability (4%)	$312,344	$339,160	$367,297	$396,773	$427,640	$459,955
Assets						
With funding	$11,514	$23,733	$36,674	$50,327	$64,712	$79,850
Funded % as of July 1	8%	14%	20%	25%	30%	34%
OPEB Cost with funding						
Normal cost	$6,198	$6,539	$6,899	$7,278	$7,679	$8,101
Amortization and interest	8,713	8,866	9,022	9,181	9,342	9,506
Total annual required contribution	$14,911	$15,405	$15,921	$16,459	$17,021	$17,607
OPEB Cost without funding						
Normal cost	$17,866	$18,849	$19,886	$20,979	$22,133	$23,350
Amortization and interest	11,672	12,743	13,866	15,043	16,276	17,566

Total annual required contribution	$29,538	$31,592	$33,752	$36,022	$38,409	$40,917
Net OPEB Obligation	$24,777	$50,841	$78,239	$106,989	$137,146	$168,766

Expense under GASB *(continued)*

6-year Projection of Funded Status and OPEB Cost (000's Omitted)

WSSC	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Liabilities						
Actuarial Accrued Liability (8%)	$81,470	$86,482	$91,516	$96,570	$101,638	$106,737
Actuarial Accrued Liability (4%)	$151,067	$158,988	$167,040	$175,232	$183,574	$192,100
Assets						
With funding	$3,628	$7,270	$10,911	$14,547	$18,172	$21,802
Funded % as of July 1	4%	8%	12%	15%	18%	20%
OPEB Cost with funding						
Normal cost	$1,722	$1,817	$1,917	$2,022	$2,134	$2,251
Amortization and interest	4,858	4,943	5,030	5,119	5,209	5,301
Total annual required contribution	$6,580	$6,760	$6,947	$7,141	$7,343	$7,552
OPEB Cost without funding						
Normal cost	$5,045	$5,322	$5,615	$5,923	$6,249	$6,593
Amortization and interest	5,632	5,948	6,269	6,596	6,929	7,269
Total annual required contribution	$10,677	$11,270	$11,884	$12,519	$13,178	$13,862
Net OPEB Obligation	$15,004	$22,716	$30,576	$38,595	$46,807	$55,269

In addition to the assumptions shown in the Actuarial Basis sections of this report, the following assumptions were used for the six-year projections:

- the number of active and retired participants will remain the same for each agency
- the demographics (age, sex, length of service, etc.) for each group will not change
- actual experience will equal the assumptions used for each valuation
- there will be no changes in the substantive plan provisions shown in this report.

Participant Data

Number of Plan Participants at July 1, 2003

County

		Retirees		Spouses	
	Actives	Pre-65	Post-65	Pre-65	Post-65
Medical	7,202	1,909	1,441	1,292	537
Dental	7,618	1,957	1,509	1,288	525
Life	8,349	1,903	1,384	N/A	N/A

Public Schools

		Retirees		Spouses	
	Actives	Pre-65	Post-65	Pre-65	Post-65
Medical	19,976	2,104	3,910	1,156	1,404
Dental	19,976	2,099	3,803	1,152	1,395
Life	19,976	2,186	4,264	N/A	N/A

College

		Retirees		Spouses	
	Actives	Pre-65	Post-65	Pre-65	Post-65
Medical	1,217	82	234	34	47
Dental	1,264	80	230	33	52
Life	1,440	67	201	29	50

MNCPPC

		Retirees		Spouses	
	Actives	Pre-65	Post-65	Pre-65	Post-65
Medical	1,125	140	191	118	144
Dental	1824	184	222	158	151
Drug	1722	193	248	172	196

WSSC

		Retirees		Spouses	
	Actives	Pre-65	Post-65	Pre-65	Post-65
Medical	1,332	596	497	388	155
Life	1,414	607	537	N/A	n/A

Actuarial Basis - County

Statement of Assumptions and Methods

Age	Kaiser	Optimum Choice	CareFirst Indemnity	CareFirst POS	Dental
55	$ 3,047	$ 3,380	$ 5,987	$ 5,589	$ 394
60	$ 3,047	$ 3,380	$ 6,774	$ 6,323	$ 394
65	$ 3,047	$ 2,878	$ 2,600	$ 1,856	$ 394
70	$ 3,047	$ 2,878	$ 2,942	$ 2,100	$ 394
75	$ 3,047	$ 2,878	$ 3,319	$ 2,369	$ 394
80	$ 3,047	$ 2,878	$ 3,593	$ 2,564	$ 394
85	$ 3,047	$ 2,878	$ 3,754	$ 2,679	$ 394

Montgomery County Government offers retirees a choice of four medical plan options, two fully insured HMO options, Kaiser and Optimum Choice, and two self funded plans through CareFirst (an indemnity plan and a POS plan). The CareFirst Indemnity Plan is closed to new retirees. CY 2003 premiums were used as the basis for developing the costs for the insured plans. Claim experience for the two self funded CareFirst plans was analyzed using estimated incurred claims for FY 2003. The claim data was analyzed both in aggregate and separately for pre-65 retirees, post-65 retirees and active participants. Completion factors were applied to the incurred data and costs were divided by participants to get an average cost per participant. The pre-65 retiree experience was blended with the active experience (after adjustments for aging and morbidity). Premiums and claims experience were then trended to FY 2004 and costs were calculated for each age. Claims were developed in a similar fashion for the dental plan offered through CIGNA. The medical and dental claims were loaded by a factor of 4% and 8%, respectively, to account for coverage of non-spouse dependents.

We assumed that future retirees will elect the benefit plan options in the same proportion as current retirees.

Actuarial Basis - County

Statement of Assumptions and Methods *(continued)*

Membership Groups and Eligibility

If an employee is a member of the Montgomery County Employees' Retirement System (ERS) and retires under a normal, early, disability or discontinued service retirement, he or she is eligible for group insurance benefits. If an employee is a member of the Montgomery County Retirement Savings Plan (RSP), he or she will be eligible for group insurance upon separation from service if his or her age and credited service under the RSP would have qualified he or she for a retirement benefit under similar circumstances had he or she been a member of the ERS in a membership group consistent with his or her position at the time of separation from service.

Below are descriptions of the membership groups for benefit eligibility.

Group A: Any employee who is not eligible for coverage under another membership group.

Group B: Any correctional officer, fire prevention officer, or deputy sheriff appointed or promoted to the position on or before June 30, 1978 who has not elected to transfer to another membership group.

Group D: Any full-time police officer appointed on or before August 15, 1965, who has been continuously employed as a police officer and has not elected to transfer to any other membership group.

Group E: The chief administrative officer, the director of the council staff, the hearing examiners, the county attorney, and each head of a principal department, office or agency of the county government, if appointed before July 30, 1978, or a member having held such position on or before October 1, 1972. Any sworn deputy sheriff, and such correctional staff as designated by the chief administrative officer.

Group F: Any sworn police officer who is not eligible for coverage under another membership group.

Group G: Any paid firefighter, paid fire officer, or paid rescue service personnel not eligible for coverage under another membership group

Group H: Any member, including any probationary employee, who holds a bargaining unit position, unless the member is eligible for membership in Groups B, D, E, F or G.

Group S: Any member of a Maryland State pension plan

Actuarial Basis - County

Statement of Assumptions and Methods *(continued)*

Mortality 1983 Group Annuity Mortality table.

Mortality (for disabled lives) 1983 Group Annuity Mortality table set forward 8 years.

Retirement Rates of retirement are as follows:

Age	Non-Public Safety Employees	Public Safety Employees
41	0%	5%**
42	0%	5%**
43	0%	5%**
44	0%	5%**
45	1%	5%**
46	1%	15%**
47	1%	15%**
48	1%	15%**
49	1%	15%**
50	5%*	15%**
51	5%*	15%**
52	5%*	50%
53	5%*	50%
54	5%*	50%
55	8%*	100%
56	8%*	100%
57	8%*	100%
58	8%*	100%
59	8%*	100%
60	16%	100%
61	16%	100%
62	16%	100%
63	16%	100%
64	16%	100%
65	50%	100%
66	50%	100%
67	75%	100%
68+	100%	100%

* *15% at first eligibility for normal retirement if before age 60, 20% at first eligibility for normal retirement if before age 65, and 20% at first eligibility for normal retirement (between ages 50 and 65) for SLT and Police Telecommunicators.*

** *30% at first eligibility for normal retirement if before age 52.*

Note: Rates apply only when an employee is eligible to retire based on age and service

Actuarial Basis - County

Statement of Assumptions and Methods *(continued)*

Turnover

Annual terminations per 1,000 members are as follows:

Years of Service	Non-Public Safety	Public Safety
0 - 4	75 – 72	80 – 32
5 - 9	70 – 42	29 – 19
10 – 14	35 – 20	15 – 7
15 – 19	18 – 12	6 – 4
20 – 25	11 – 7	3 – 2
26+	6	2

Disability

Annual disability rates per 1,000 members are as follows:

	Non-Public Safety Employees		Public Safety Employees	
Age	Male	Female	Male	Female
20	1	1	2	1
25	2	1	4	2
30	3	2	9	6
35	4	3	11	9
40	4	4	14	13
45	5	5	27	25
50	6	5	45	39
55	7	6	55	41
60	12	8	68	42
65	0	0	0	0

Ninety percent (90%) of the disabilities among Group G members, 85% of the disabilities among other public safety employees and 60% among non-public safety employees are assumed to be service-connected.

Dependents of Future Retirees

80% of all future retirees are assumed to have covered spouses. Male (female) spouses are assumed to be 3 years older (younger) than female (male) retirees.

Participation Rate

100% of all current participants will participate in the plan.

Investment Rate of return

4.00% for unfunded plan
8.00% for funded plan

Actuarial Basis - County

Statement of Assumptions and Methods (continued)

Salary Increase

4.0% compound per annum plus merit/promotional increase. Merit and promotional increases assumed to be based on age as shown below:

Age	Merit/Promotional Increase
22	4.1%
27	3.7%
32	3.0%
37	2.5%
42	1.4%
47	1.3%
52	1.1%
57	1.1%

Health Care Cost Trend Rates

Medical (including prescription drugs) - 13.50% annual rate of increase grading down to 5.50% over 8 years. (13.50%, 12.50%, 11.50%, 10.25%, 9.00%, 7.75%, 6.50%, 5.50%)

Dental – 8.50% annual rate of increase grading down to 5.50% over 7 years. (8.50%, 8.00%, 7.50%, 7.00%, 6.50%, 6.00%, 5.50%)

Administrative Expenses

Included in claim costs

Actuarial Basis - County

Summary of Plan Provisions

Medical Plan

	Kaiser Permanente	Optimum Choice	CareFirst BCBS Indemnity
Deductible	None	None	$200 ind/ $400 fam
Out-of-pocket limit	None	Choice: Individual: $1,100 Family: $3,200 Select: Individual: $1,100 Individual +1: $2,200 Family: $3,600	Individual: $1,000 plus the annual deductible; Individual plus one or Family: $2,000 plus the annual deductible
Lifetime maximum	None	None	Individual: $1,000,000 for major medical services
Office visits	$5 co-pay	PCP: $5 co-pay Specialist: $10 co-pay	80% after deductible
Hospital	100%	100%	Covered in full; 180 day maximum per confinement.
Surgery	100%	Inpatient: 100% Outpatient: $25 co-pay	100% up to amount allowed by plan.
Maternity	100%	$10 co-pay, $100 per pregnancy maximum	100% up to amount allowed by plan.
SA/MH	Inpatient: 100% Outpatient: $20 co-pay per ind. visit; $10 co-pay per grp visit	Inpatient: 100% Outpatient visits: 1-5 20% co-pay; 6-30 35% co-pay; 31+ 50% co-pay.	Inpatient-100% to 180 days (lifetime maximum does not apply); Outpatient-80% after deductible.
Emergency room	$35 co-pay - waived if admitted	$25 co-pay - waived if admitted $15 co-pay for UCC	Covered in full if life-threatening or accidental injury; 80% after deductible for illness.
Rehabilitation Services	Inpatient: 100%; PT provided for up to 20 visits per injury per year Outpatient: $5 co-pay; PT limited to 30 visits, OT and ST limited to 90 days	$10 co-pay/visit; 60 visits per condition (short-term non-chronic conditions only).	80% after deductible.
Prescription drug	$5 co-pay at on-site pharmacies and mail order; $15 co-pay at participating pharmacies	$5 generic; $10 brand at participating pharmacies; mandatory generic, unless not available	80% after deductible.

Actuarial Basis - County

Summary of Plan Provisions *(continued)*

	CareFirst BCBS POS	
	In Service Area	Out of Service Area
Deductible	**In network:** None **Out-of-Network:** $300 ind/ $600 fam	**In network:** None **Out-of-Network:** $300 ind/ $600 fam
Out-of-pocket limit	Individual: $1,000 plus the annual deductible; Individual plus one or Family: $2,000 plus the annual deductible	Individual: $2,000 plus the annual deductible; Individual plus one or Family: $4,000 plus the annual deductible
Lifetime maximum	Unlimited	Individual: $2,000,000
Office visits	**In network:** $10 co-pay **Out-of-Network:** 80% after deductible.	**In network:** $10 co-pay **Out-of-Network:** 80% after deductible.
Hospital	**In network:** covered in full; **Out-of-Network:** 80% after deductible.	**In network:** covered in full; **Out-of-Network:** 80% after deductible.
Surgery	**In network:** covered in full; **Out-of-net-work:** 80% after deductible.	**In network:** covered in full; **Out-of-net-work:** 80% after deductible.
Maternity	**In network:** first visit 100% after $10 copay; other visits 100%; **Out-of-network:** 80% after deductible.	**In network:** covered in full; **Out-of-net-work:** 80% after deductible.
SA/MH	**In network:** Inpatient-covered in full; Outpatient-visits 1-5 100%; 70% thereafter; **Out-of-network:** Inpatient-80% after deductible; Outpatient-80% first 5 visits; 65% next 25 visits; 50% each thereafter (all outpatient visits subject to deductible).	**In network:** Inpatient-covered in full; Outpatient-visits 1-5 100%; visits 6-30 80%; 31 + 50%; **Out-of-network:** Inpatient-80% after deductible; Outpatient- visits 1-5; 80% ; visits 6-30% 65%; visits 31% + 50% (all outpatient visits subject to deductible).
Emergency room	**In network:** $25 co-pay waived if admitted to hospital; **Out-of-network:** 80% after deductible.	**In network:** $50 co-pay, waived if admitted to hospital; **Out-of-network:** 80% after deductible.
Rehabilitation Services	**In network:** 100%; **Out-of-network:** 80% after deductible.	**In network:** covered in full; **Out-of-network:** 80% after deductible.
Prescription drug	**In network:** participating retail pharmacies - $4 generic; $8 brand; (mail order option also available); **Out-of-network:** 80% after deductible.	**In network:** participating retail pharmacies - $4 generic; $8 brand; (mail order option also available); **Out-of-network:** 80% after deductible.

Actuarial Basis - County

Summary of Plan Provisions *(continued)*

Dental Plan

Deductible	$50 per person, $150 family
Class I: Diagnostic and Preventive	Payable at 100% of R&C (limited to two in any CY)
Class II: Basic	Payable at 80% of R&C
Class III: Major	Payable at 60% of R&C
Class IV: Orthodontics	Payable at 60% of R&C
Calendar Year Maximum	$2,000 per person
Class IV lifetime maximum	$1,000 per person

Vision Plan

Program offers discounts at participating locations.

Life Insurance Plan

100% of final pay for Choice plan, 200% for the Select plan, (maximum $200,000) multiplied by 5% for each year of service at retirement up to 100%. On the fifth anniversary of retirement and each following anniversary the benefit reduces by 10% of the initial post-retirement amount, but not to less than 25%. At age 65 the amount is immediately reduced to 25% of the initial post-retirement amount.

Actuarial Basis - County

Summary of Plan Provisions *(continued)*

Cost Sharing

Select Plan

Years of Service	County Share	Retiree Share
15 or more	70%	30%
10	60%	40%
5	50%	50%

For each year between 5 and 15 years, the County's share increases 2%.
At age 65 term life insurance becomes 100% County paid.

Choice Plan

For those hired after 12/31/1986 the above rates apply. For those hired before 1/1/1987, the County pays 80% for the number of years equal to the number of years of service at retirement or the participant can choose the above rates.

Normal Retirement Age and Service Requirements:

Group A: Age 60 and five years of credited service, or age 55 and 30 years of credited service *(after June 30, 2002, age 50 and 30 years of credited service for members who are Police Telecommunicators).*

Group B: Age 55 and 15 years of credited service, or age 51 and 30 years of credited service.

Group D: The requirements contained in the police relief and retirement fund law of the county.

Group E: Age 55 and 15 years of credited service, or age 46 and 25 years of credited service.

Group F: Age 55 and 15 years of credited service, or age 46 with 25 years of credited service.

Group G: Age 55 and 15 years of credited service, or any age with 25 years of credited service.

Group H: Age 60 with five years of credited service, or age 55 with 30 years of credited service *(after June 30, 2002, age 50 and 30 years of credited service for members who are Police Telecommunicators or members of the Service, Labor, and Trades (SLT) bargaining unit).*

Group S: Hired before 1/1/1980, 30 years of service. Hired after 1/1/1980, earliest of age 62 and 5 years of service, 63 and 4, 64 and 3, and 65 and 2.

Actuarial Basis - County

Summary of Plan Provisions *(continued)*

Early retirement age and service requirements:

Group A: Age 50 and 15 years of credited service, or age 45 and 20 years of credited service.

Group B: Age 45 and 15 years of credited service.

Group D: Not applicable.

Group E: Age 45 and 15 years of credited service, or age 41 and 20 years of credited service.

Group F: Age 45 and 15 years of credited service, or age 41 and 20 years of credited service.

Group G: Age 45 and 15 years of credited service, or age 41 and 20 years of credited service.

Group H: Age 50 with 15 years of credited service, or age 45 and 20 years of credited service.

Group S: Hired before 1/1/1980, 25 years of service. Hired after 1/1/1980, age 55 and 15 years of service

Actuarial Basis – Public Schools

Per Capita Claim Costs

Age	Medical	Prescription Drugs	Vision	Dental
55	$3,727	$1,813	$11	$ 240
60	$4,217	$2,051	$11	$ 240
65	$1,085	$1,961	$11	$ 240
70	$1,228	$2,219	$11	$ 240
75	$1,385	$2,503	$11	$ 240
80	$1,499	$2,710	$11	$ 240
85	$1,566	$2,831	$11	$ 240

MCPS offers retirees a choice of six medical plan options, two prescription drug options through Caremark, two dental plan options through Aetna (a PPO plan and a DMO), and an NVA vision plan. The medical plan options include three HMOs (Aetna, Kaiser, and CareFirst Blue Choice), two CareFirst POS plans (offered to pre-65 retirees only), and a CareFirst Indemnity plan. Medical and prescription drug claim experience was analyzed using aggregate paid and incurred claims for the period between January 2002 and June 2003. The medical and prescription drug plan data was blended together based on current retiree enrollment. The claim data was analyzed separately for pre-65 retirees, post-65 retirees and active participants. Completion factors were applied to the incurred data and costs were divided by participants to get an average cost per participant. The pre-65 retiree experience was blended with the active experience (after adjustments for aging and morbidity). Premiums and claims experience were then trended to FY 2004 and costs were calculated for each age. Premiums and claims were developed in a similar fashion for the two dental plans and the vision plan.

Actuarial Basis – Public Schools

Statement of Assumptions and Methods

Mortality (for active lives) 90% of 1994 Group Annuity Mortality Static table (sex-distinct).

Mortality (for healthy inactive lives) 100% of 1994 Group Annuity Mortality Static table (sex-distinct).

Mortality (for disabled lives) 100% of 1994 Group Annuity Mortality Static table (sex-distinct), set forward 5 years.

Retirement Rates of retirement are as follows:

Age	ERS Rate	EPS Rate
45-50	4%	5%
51-54	6%	8%
55-59	8%	11%
60-61	17%	22%
62	25%	30%
63	15%	20%
64	10%	15%
65	40%	50%
66-67	20%	25%
68-69	15%	20%
70+	100%	100%

In addition, Employees' Pension System (EPS) participants are assumed to retire at a rate of 25% in the year first eligible for unreduced benefits from the DB pension plan, and Employees' Retirement System (ERS) participants are assumed to retire at a rate of 35% in the year first eligible for unreduced benefits from the DB pension plan.

Actuarial Basis – Public Schools

Statement of Assumptions and Methods *(continued)*

Turnover

Years of Service	Annual Rate
1-4	11.0%
5-9	6.0%
10-14	4.0%
15-19	2.5%
20+	1.0%

Disability rates

Representative rates are as follows:

Age	Annual Rate
25	0.039%
30	0.039%
35	0.058%
40	0.119%
45	0.290%
50	0.369%
55	0.603%

Dependents of Future Retirees

60% of all future retirees are assumed to have covered spouses. Male (female) spouses are assumed to be 2 years older (younger) than female (male) retirees.

Participation Rate

90% of all active employees will participate in the plan. No inactives who do not participate will participate in the future.

Actuarial Basis – Public Schools

Statement of Assumptions and Methods *(continued)*

Investment Rate of return

4.00% for unfunded plan
8.00% for funded plan

Salary scale

Years of Service	Annual Rate
1-9	8.0%
10-24	6.0%
25+	3.5%

Health Care Cost Trend Rates

Medical – 12.00% annual rate of increase grading down to 5.50% over 8 years. (12.00%, 11.00%, 10.00%, 9.00%, 8.00%, 7.00%, 6.00%, 5.50%)

Prescription Drugs – 15.00% annual rate of increase grading down to 5.50% over 8 years. (15.00%, 14.00%, 13.00%, 11.50%, 10.00%, 8.50%, 7.00%, 5.50%)

Dental – 8.50% annual rate of increase grading down to 5.50% over 7 years. (8.50%, 8.00%, 7.50%, 7.00%, 6.50%, 6.00%, 5.50%)

Administrative Expenses

Included in claim costs

Actuarial Basis – Public Schools

Summary of Plan Provisions

Pre-65 Medical Plans

	CareFirst – Indemnity Plan	CareFirst – Standard POS Plan		CareFirst – High Option Plan	
		In-Network Benefits	Out-of-Network Benefits*	In-Network Benefits	Out-of-Network Benefits*
Deductible	$200 individual/$400 family	None	$300/person; $600 family	None	$200/person; $400 family
Out-of-pocket limit	$1,500 per person (deductible does not apply). Plan pays 100% of eligible expenses per calendar year.	None	$1,000/year	None	$1,500/year
Lifetime maximum	None	None	$2 million	None	None
Office visits	80% after deductible for most commonly used services. Routine annual physicals not covered.	$10 co-pay	80% after deductible	$5 co-pay	80% after deductible, 90% for minor surgery/diagnostic
Hospital	90% after deductible for most services.	100%	80% after deductible	100%	90% after deductible
Surgery	90% after deductible for inpatient, 80% after deductible for outpatient	100%	80% after deductible	100% covered	90% after deductible
Maternity: pre-natal, delivery & post-natal obstetrical care	90% after deductible	$10 co-pay 1st visit, then 100%	80% after deductible	$5 co-pay 1st visit, then 100%	90% after deductible
Maternity: hospital	90% after deductible (180-day/year limit)	100%	80% after deductible	100%	90% after deductible
SA/MH	100% inpatient, limited to 180-days/year. 80% after deductible – 1st 30 visits; 50% thereafter.	100% inpatient. 100% outpatient, 1st 5 visits; 80% thereafter.	80% after deductible inpatient (180-days/year limit). 80% after deductible outpatient, 1st 5 visits; 65% next 25 visits; 50% thereafter.	100% inpatient. 100% outpatient, 1st 5 visits; 80% thereafter.	90% after deductible inpatient (180-days/year limit). 80% after deductible outpatient, 1st 30 visits; 50% thereafter.
Retiree contributions	36% of total cost	36% of total cost	36% of total cost	36% of total cost	36% of total cost

Actuarial Basis – Public Schools

Summary of Plan Provisions *(continued)*

Pre-65 Medical Plans (continued)

	Kaiser Permanente HMO	Optimum Choice HMO	CareFirst – HMO Plan
Deductible	None	None	None
Out-of-pocket limit	None	None	None
Lifetime maximum	None	None	None
Office visits	100%	$5 co-pay	$5 co-pay ($10 for specialist office)
Hospital	100%	100%	100%
Surgery	100%	$25.00 charge per surgery	100%
Maternity: pre-natal, delivery & post-natal obstetrical care	100%	$50 max charge per pregnancy	$10 co-pay/visit. $100 max charge per pregnancy.
Maternity: hospital	100%		100%
Substance abuse/mental health	100% for inpatient. Outpatient: no charge for visits 1-5 outpatient; $10 ind/$5 group for visits 6-10; $30 ind/$10 group after visit 10.	100% charge for inpatient. Outpatient: 80% for visits 1-5; 65% for visits 6-30; 50% thereafter.	100% charge for inpatient. Outpatient: 80% for visits 1-5; 65% for visits 6-30; 50% thereafter.
Retiree contributions	36% of total cost	36% of total cost	36% of total cost

* Benefits for out-of-network services are provided for eligible expenses up to the usual and customary charge.

Actuarial Basis – Public Schools

Summary of Plan Provisions *(continued)*

Post-65 Medical Plans

	CareFirst Indemnity	BlueChoice*	Optimum Choice*	Kaiser Medicare Plus*
Hospitalization:				
1st 60 days	Pays $840	Pays $840	Pays $840	Pays 100%
61st through 90th day	Pays $210/day	Pays $210/day	Pays $210/day	Pays 100%
91st through 150th day	Pays $420/day	Pays $420/day	Pays $420/day	Pays 100%
Beyond 150 days	Covered in full up to 180th day	Covered in full	Covered in full	Covered in full
Blood				
Inpatient	Pays for first 3 pints per calendar year	Pays nothing	Pays nothing	Pays all but first 3 pints per calendar year
Outpatient	Pays for first 3 pints, $100 Part B deductible, 20% Medicare coinsurance	Pays nothing	Pays nothing	Pays all but first 3 pints per calendar year
Post-hospital skilled Nursing facility care				
First 20 days	Pays nothing	Pays nothing	Pays nothing	Pays 100% when approved
21st through 100th day	Pays up to $105/day	Pays up to $105/day, up to 60 days/year	Pays up to $105/day, up to 60 days/year	Pays 100%, up to 100 days per benefit period.
Home health care	Pays nothing	Pays nothing	Pays nothing	Pays 100% when approved.
Durable medical equipment	Pays $100 Part B deductible, 20% Medicare coinsurance	Pays $100 Part B deductible, 20% Medicare coinsurance, up to 75% of allowed charge	Pays $100 Part B deductible, 20% Medicare coinsurance, up to 50% of allowed charge	Pays $100 Part B deductible, 20% Medicare coinsurance
Hospice care (Rx through Caremark)	Pays 5% Medicare coinsurance inpatient respite care	Pays 5% Medicare coinsurance inpatient respite care	Pays 5% Medicare coinsurance inpatient respite care	Pays 5% Medicare coinsurance inpatient respite care
Surgery, X-ray/Lab, ER treatment	Pays $100 Part B deductible, 20% Medicare coinsurance	Pays $100 Part B deductible, 20% Medicare coinsurance, after $5 co-pay for routine illness and $10 co-pay for specialist visits (after $25 co-pay for ER visit)	Pays $100 Part B deductible, 20% Medicare coinsurance, after $5 co-pay for routine illness and $10 co-pay for specialist visits (after $25 co-pay for ER visit)	Pays $100 Part B deductible, 20% Medicare coinsurance, after $5 co-pay for routine illness and $10 co-pay for specialist visits (after $50 co-pay for ER visit)

Actuarial Basis – Public Schools

Summary of Plan Provisions *(continued)*

Post-65 Medical Plans

Outpatient hospital treatment	Pays $100 Part B deductible, 20% Medicare coinsurance	Pays $100 Part B deductible, 20% Medicare coinsurance after $25 co-pay	Pays $100 Part B deductible, 20% Medicare coinsurance after $25 co-pay	Pays $100 Part B deductible, 20% Medicare coinsurance after $5 co-pay
Preventative care	Covers yearly mammograms, pap smears at 100%	Covered in full after $5 co-pay	Covered in full after $5 co-pay. Co-pay due only when Part B has not been met.	Covered in full after $5 co-pay
Retiree contributions	36% of total cost	36% of total cost	36% of total cost	36% of total cost

* HMOs provide standard benefit package. Reimbursement is obtained from Medicare up to the limits shown.

Normal Retirement Age and Service Requirements:

Employees' Pension System: Age 62 with 5 years of credited service, or age 63 with 4 years of credited service, or age 64 with 3 years of credited service, or age 65 with 2 years of credited service, or 30 years of credited service.

Employees' Retirement System: Age 60, or 30 years of credited service.

Early Retirement Age and Service Requirements:

Employees' Pension System: Age 55 with 15 years of credited service.

Employees' Retirement System: Age 55 with 15 years of credited service.

Actuarial Basis – Public Schools

Summary of Plan Provisions *(continued)*

Prescription Drugs

	Caremark Option A	Caremark Option B	Kaiser Non-Medicare Eligible	Kaiser Medicare Plus
Retail				
Generic	$5 co-pay, 34-day supply	$10 co-pay, 34-day supply	$3 co-pay at Kaiser center, $10 at participating pharmacy, 60-day supply	$5 co-pay at Kaiser center, $10 at participating pharmacy, 60-day supply
Formulary brand	$15 co-pay, 34-day supply	$25 co-pay, 34-day supply	$3 co-pay at Kaiser center, $10 at participating pharmacy, 60-day supply	$5 co-pay at Kaiser center, $10 at participating pharmacy, 60-day supply
Non-formulary brand	$25 co-pay, 34-day supply	$35 co-pay, 34-day supply	$3 co-pay at Kaiser center, $10 at participating pharmacy, 60-day supply	$5 co-pay at Kaiser center, $10 at participating pharmacy, 60-day supply
Mail-order				
Generic	$10 co-pay, 90-day supply	$20 co-pay, 90-day supply	$3 co-pay for 60-day supply; $3 co-pay for 90-day supply of maintenance medication.	$3 co-pay for 60-day supply; $7.50 co-pay for 90-day supply of maintenance medication.
Formulary brand	$30 co-pay, 90-day supply	$50 co-pay, 90-day supply	$3 co-pay for 60-day supply; $3 co-pay for 90-day supply of maintenance medication.	$3 co-pay for 60-day supply; $7.50 co-pay for 90-day supply of maintenance medication.
Non-formulary brand	$50 co-pay, 90-day supply	$70 co-pay, 90-day supply	$3 co-pay for 60-day supply; $3 co-pay for 90-day supply of maintenance medication.	$3 co-pay for 60-day supply; $7.50 co-pay for 90-day supply of maintenance medication.
Retiree contributions	Based on the percentage of cost for the following periods: 7/03-6/04: 26.6% 7/04-6/05: 29.7% 7/05-6/06: 32.9% 7/06 & on: 36%	Based on the percentage of cost for the following periods: 7/03-6/04: 12.6% 7/04-6/05: 20.4% 7/05-6/06: 28.2% 7/06 & on: 36%	36% of total cost.	Included with Kaiser Medicare Plus medical plan.

Actuarial Basis – Public Schools

Summary of Plan Provisions *(continued)*

Dental Plan

	PPO		DMO
	in-network	*out-of-network*	
Calendar Year Maximum	$1,500	$1,500	None
Class IV Lifetime Maximum	$1,000	$1,000	None
Deductible	$50	$100	None
Class I: Diagnostic and Preventive	100% covered	100% covered,	100% covered
Class II: Basic	Payable at 80% of R&C	Payable at 80% of R&C	Payable at 100% of R&C
Class III: Major	Payable at 50% of R&C for inlays, dentures, bridge/100% of R&C for anesthesia, osseous surgery, surgical removal.	Payable at 40% of R&C for inlays, dentures, bridge/80% of R&C for anesthesia, osseous surgery, surgical removals; $400 maximum.	Payable at 75% of R&C
Class IV: Orthodontics	Payable at 50% of R&C	Payable at 30% of R&C	Payable at 50% of R&C

Actuarial Basis – Public Schools

Summary of Plan Provisions *(continued)*

Life Insurance Plan

Death benefit is equal to 85% of final pay. Benefit reduces 15% of final pay for the first five years after retirement, then remains level 25% of final pay.

Retirees contribute 6.1% of the face amount of the benefit for the first 3 years of retirement, then $0 thereafter.

Vision Plan

Program that reimburses expenses for eye examinations, eyeglass lenses, and frames for any one person up to the maximum benefit listed below.

Coverage provided	Maximum Benefit	Limit
Exams	$25 optometrist, $33 ophthalmologist	One exam during any 18 consecutive months
Frames	$20	One set of frames during any 18 consecutive months
Lenses	$10/single vision $17.50/bi-focal $22.50/tri-focal $60/lenticular $230/contact lenses	Two lenses during any 18 consecutive months
Retiree contributions	$0.36 per month for primary/$0.30 for dependent spouse	

Actuarial Basis – College

Per Capita Medical Claim Costs

Age	Kaiser HMO	Optimum HMO	Cigna	Dental Self-Insured	Dental Fully Insured
55	$4,022	$4,016	$ 3,778	$ 398	$ 230
60	$4,022	$4,016	$ 4,274	$ 398	$ 230
65	$2,770	$4,016	$ 2,654	$ 398	$ 230
70	$2,770	$4,016	$ 3,003	$ 398	$ 230
75	$2,770	$4,016	$ 3,387	$ 398	$ 230
80	$2,770	$4,016	$ 3,667	$ 398	$ 230
85	$2,770	$4,016	$ 3,831	$ 398	$ 230

Montgomery College offers retirees a choice of three medical plan options, two fully insured HMOs, Kaiser and Optimum Choice, and a self funded PPO product through CIGNA. CY 2003 premiums were used as the basis for developing the costs for the insured plans. CIGNA experience was analyzed using aggregate paid and incurred claims for the period between January 2000 and December 2002. The claim data was analyzed separately for pre-65 retirees, post-65 retirees and active participants. Completion factors were applied to the incurred data and costs were divided by participants to get an average cost per participant. The pre-65 retiree experience was blended with the active experience (after adjustments for aging and morbidity). Premiums and claims experience were then trended to FY 2004 and costs were calculated for each age. Premiums and claims were developed in a similar fashion for the two dental plans offered through CIGNA.

We assumed that future retirees will elect the benefit plan options in the same proportion as current retirees.

Actuarial Basis – College

Statement of Assumptions and Methods

Mortality

1983 Group Annuity Mortality table for males. For females, mortality is set back six years.

Mortality (for disabled lives)

1983 Group Mortality table for males and females set forward 10 years.

Retirement

Rates of retirement are as follows:

Age	Rate
55	17%
56	0%
57	0%
58	0%
59	0%
60	15%
61	0%
62	17%
63	0%
64	0%
65	47%
66	0%
67	68%
68	0%
69	100%

Actuarial Basis - College

Statement of Assumptions and Methods *(continued)*

Turnover

Age	Sample rates are as follows:
25	0.3175
30	0.1805
35	0.1569
40	0.1030
45	0.0795
50	0.0513
55+	0.0000

Dependents of Future Retirees

45% of all future retirees are assumed to have covered spouses. Male (female) spouses are assumed to be 3 years older (younger) than female (male) retirees.

Participation Rate

100% of all current participants will participate in the plan.

Investment Rate of return

4.00% for unfunded plan
8.00% for funded plan

Salary Scale

5.00%

Actuarial Basis - College

Statement of Assumptions and Methods *(continued)*

Health Care Cost Trend Rates	Medical (including prescription drugs) - 13.50% annual rate of increase grading down to 5.50% over 8 years. (13.50%, 12.50%, 11.50%, 10.25%, 9.00%, 7.75%, 6.50%, 5.50%) Dental – 8.50% annual rate of increase grading down to 5.50% over 7 years. (8.50%, 8.00%, 7.50%, 7.00%, 6.50%, 6.00%, 5.50%)
Administrative Expenses	Included in claim costs

Actuarial Basis - College

Summary of Plan Provisions

Medical Plan

	Cigna – Designated Provider Medical Benefits		Cigna – Comprehensive Medical Benefits	
	In Service Area	Out of Service Area	In Service Area	Out of Service Area
Deductible	None	$300/person; $900 family	$200	$200
Out-of-pocket limit	None	$900/year	$2,000	$2,000
Lifetime maximum	$2 million	$2 million	Unlimited	Unlimited
Office visits	$10 co-pay	70% after deductible	80% after deductible	80% after deductible
Hospital	$250 per admission then 100%	70% after deductible	$250 per admission then 80% after deductible	$250 per admission then 80% after deductible
Surgery	100%	70% after deductible	80% after deductible	80% after deductible
Maternity	10 co-pay then 100%	70% after deductible	80% after deductible	80% after deductible
SA/MH	70% after deductible	70% after deductible	Inpatient – same as patient facility benefit. Outpatient – 50% after deductible	Inpatient – same as patient facility benefit. Outpatient – 50% after deductible
Emergency room	$50 per visit then 100%	$50 per visit then 100%	80% after deductible	80% after deductible
Rehabilitation services	$10 co-pay then 100%	70% after deductible	80% after deductible	80% after deductible
Prescription drug	$10 generic; $20 brand; $30 non preferred then 100%	70% after deductible	$150/person/year deductible with $750/person/year out of pocket max. Rx drugs 20%; mail order - $20 generic; $40 brand; $60 non-preferred then 100%	Not covered
Retiree Contributions	40% of total cost	40% of total cost	40% of total cost	40% of total cost

Actuarial Basis - College

Summary of Plan Provisions *(continued)*

Medical Plan

	Kaiser Permanente HMO	Optimum Choice HMO
Deductible	None	None
Out-of-pocket limit	None	None
Lifetime maximum	None	None
Office visits	$10 co-pay	$10 co-pay Specialist: $15 co-pay Urgent care: $15 co-pay
Hospital	100%	$300 co-pay per admission
Surgery	100%	100%
SA/MH	$20 co-pay per ind. visit; $10 co-pay per grp visit	Inpatient: 100% Outpatient visits: 1-5 20% co-pay; 6-30 35% co-pay; 31+ 50% co-pay.
Emergency room	$35 co-pay - waived if admitted	$25 co-pay - waived if admitted
Prescription drug	$10/$20 co-pay at on-site pharmacies and mail order; $16/$32 co-pay at participating pharmacies	$10 generic; $35 brand at participating pharmacies; $20 formulary

Actuarial Basis - College

Summary of Plan Provisions *(continued)*

Dental Plan

Class I: Diagnostic and Preventive	Payable at 100% of R&C; no deductible
Class II: Basic	Payable at 80% of R&C; $50 deductible
Class III: Major	Payable at 60% of R&C; $50 deductible
Class IV: Orthodontics	Payable at 60% of R&C; $50 deductible
Current Year Maximum	$2000 per person for Preventive, basic and major. $1000 for Orthodontia and periodontia

[a] Physician diagnostic expenses — based on Medicare approved charges — are covered when the out-of-pocket limits are reached.

Life Insurance Plan

100% of final pay (maximum $50,000). Benefit reduces 20% each year after retirement (or age 60 for disabled employees), but not less than $5,000.

Normal Retirement Age and Service Requirements:

Employees' Pension System: Age 62 with 5 years of credited service, or age 63 with 4 years of credited service, or age 64 with 3 years of credited service, or age 65 with 2 years of credited service, or 30 years of credited service.

Employees' Retirement System: Age 60, or 30 years of credited service.

Early Retirement Age and Service Requirements:

Employees' Pension System: Age 55 with 15 years of credited service.

Employees' Retirement System: Age 55 with 15 years of credited service.

Actuarial Basis – MNCPPC

Per Capita Medical Claim Costs

Age	BlueChoice HMO	Aetna HMO	CareFirst POS	MetLife Dental	Caremark Rx
55	$2,324	$2,703	$ 3,481	$ 276	$1,145
60	$2,324	$2,703	$ 3,939	$ 276	$1,301
65	$2,324	$2,703	$ 1,260	$ 276	$1,443
70	$2,324	$2,703	$ 1,425	$ 276	$1,632
75	$2,324	$2,703	$ 1,608	$ 276	$1,842
80	$2,324	$2,703	$ 1,741	$ 276	$1,994
85	$2,324	$2,703	$ 1,819	$ 276	$2,083

MNCPPC offers retirees a choice of four medical plan options: three fully insured HMO options (Aetna, CareFirst Blue Choice, and Optimum Choice) and a self funded POS plan through CareFirst. Prescription drugs are offered through Caremark on a self-funded basis and are offered as a stand alone benefit. CY 2003 premiums were used as the basis for developing the costs for the insured plans. Claim experience for the POS plan was analyzed using aggregate paid claims for CY 2002. Caremark experience was analyzed using aggregate paid claims for the period between January 2003 and August 2003. The claim data was analyzed separately for pre-65 retirees, post-65 retirees and active participants. Estimated total paid claims were divided by participants to get an average cost per participant. The pre-65 retiree experience was blended with the active experience (after adjustments for aging and morbidity). The rates developed based on actual claims experience were then blended with accrual rates calculated by CareFirst and trended to FY 2004 and costs were calculated for each age. Dental coverage is offered through MetLife on a fully insured basis.

We assumed that future retirees will elect the benefit plan options in the same proportion as current retirees.

Actuarial Basis – MNCPPC

Statement of Assumptions and Methods

Mortality 1994 Uninsured Pensioners Mortality Table.

Retirement Rates of retirement are as follows:

Years of Service	Park Police Early	Park Police Normal	Non-Police Early	Non-Police Normal
5	N/A	0.10	N/A	0.20
10	N/A	0.10	N/A	0.20
15	N/A	0.10	0.05	0.20
20	0.15	0.10	0.05	0.20
25	0.15	0.33	0.05	0.20
30	0.15	0.50	N/A	0.20

Turnover

Years of Service	Park Police	Non-Police
0	0.070	0.110
5	0.050	0.065
10	0.025	0.033
15	0.000	0.010
20	0.000	0.010
25	0.000	0.010
30	0.000	0.010

Actuarial Basis – MNCPPC

Statement of Assumptions and Methods *(continued)*

Disability

Age	Park Police	Non-Police
25	0.00256	0.00094
30	0.00366	0.00147
35	0.00508	0.00219
40	0.00693	0.00329
45	0.00940	0.00511
50	0.01354	0.00838
55	0.02288	0.01498
60	0.03434	0.02107

Dependents of Future Retirees

90% of all future male retirees and 50% of all future female retirees are assumed to have covered spouses. Male (female) spouses are assumed to be 3 years older (younger) than female (male) retirees.

Participation Rate

100% of all current participants will participate in the plan.

Investment Rate of return

4.00% for unfunded plan
8.00% for funded plan

Salary Scale

Not applicable

Actuarial Basis – MNCPPC

Statement of Assumptions and Methods *(continued)*

Health Care Cost Trend Rates	Medical – 12.00% annual rate of increase grading down to 5.50% over 8 years. (12.00%, 11.00%, 10.00%, 9.00%, 8.00%, 7.00%, 6.00%, 5.50%) Prescription Drugs – 15.00% annual rate of increase grading down to 5.50% over 8 years. (15.00%, 14.00%, 13.00%, 11.50%, 10.00%, 8.50%, 7.00%, 5.50%) Dental – 8.50% annual rate of increase grading down to 5.50% over 7 years. (8.50%, 8.00%, 7.50%, 7.00%, 6.50%, 6.00%, 5.50%)
Administrative Expenses	Included in claim costs

Actuarial Basis - MNCPPC

Summary of Plan Provisions

Medical Plan

	Aetna U.S. Healthcare HMO	Carefirst BlueChoice HMO	CareFirst BCBS POS	
			In Service Area	Out of Service Area
Deductible	None	None	None	$200/indiv; $600/family
Out-of-pocket limit	None	None	None	$400/indiv; $1200/family deductible not included combine OOP
Lifetime maximum	None	None	None	None
Office visits	PCP: $10 copay Specialist: $10 copay After hours: $10	PCP: $10 copay Specialist: $15 copay	PCP: $10 copay Specialist: $10 copay	80% of allowed benefit (deductible applies)
Out-patient Surgery	PCP: $10 copay Specialist: $10 copay	PCP: $10 copay Specialist: $15 copay	100%	80% of allowed benefit (deductible applies)
Maternity	$10 co-pay 1st visit then 100%	$10 copay per visit - $100 max per preganancy	PCP: $10 copay Specialist: $10 copay	80% of allowed benefit (deductible applies)
Diagnotic/Lab/X-ray	PCP: $10 copay Specialist: $10 copay	100%	100%	80% of allowed benefit (deductible applies)
Rehabilitation Services	$10 copay. visits limited	$15 copay specialist. limited to 30 visits	PCP: $10 copay Specialist: $10 copay 90 days per condition	80% combined 90 days per condition
Prescription drug	Not covered. Separate plan under Caremark.	Not covered. Separate plan under Caremark.	Not covered. Separate plan under Caremark.	Not covered. Separate plan under Caremark.
Retiree Contributions	15% of total cost	15% of total cost	15% of total cost	15% of total cost
Eligibility	Normal retirement	Early retirement		
Park Police	Age 60 and 5 years of service or 55 and 25 years of service	Age 55 and 15 years of service or 20 years of service		
Non Police	Age 60 and 5 years of service or 30 years of service	Age 55 and 15 years of service or 25 years of service		

Actuarial Basis - MNCPPC

Summary of Plan Provisions *(continued)*

Dental Plan

Deductible	$50 per person, $150 family
Class I: Diagnostic and Preventive	Payable at 100% of R&C; limited to 2 in any current year
Class II: Basic	Payable at 80% of R&C
Class III: Major	Payable at 60% of R&C
Class IV: Orthodontics	Payable at 60% of R&C
Current Year Maximum	$2000 per person
Class IV lifetime maximum	$2000 per person

Actuarial Basis – WSSC

Per Capita Medical Claim Costs

Age	Aetna U.S. Healthcare POS	CareFirst Blue Choice HMO	Kaiser Permanente	Optimum Choice
55	$ 6,132	$ 3,128	$ 3,103	$ 4,675
60	$ 6,938	$ 3,128	$ 3,103	$ 5,290
65	$ 4,101	$ 3,682	$ 2,770	$ 1,832
70	$ 4,640	$ 3,682	$ 2,770	$ 2,073
75	$ 5,234	$ 3,682	$ 2,770	$ 2,338
80	$ 5,667	$ 3,682	$ 2,770	$ 2,531
85	$ 5,920	$ 3,682	$ 2,770	$ 2,645

WSSC offers retirees a choice of four medical plan options: two fully insured HMO options (CareFirst Blue Choice and Kaiser), and two self funded options (a POS product through Aetna and an Optimum Choice HMO). Prescription drugs are offered through the medical plans. CY 2003 premiums were used as the basis for developing the costs for the insured plans. Aetna experience was analyzed using aggregate paid claims for the period between July 2001 and June 2003. Optimum Choice experience was analyzed using aggregate paid and incurred claims for the period between January 2001 and June 2003. The claims data was analyzed separately for pre-65 retirees, post-65 retirees and active participants. Total paid costs were divided by participants to get an average cost per participant. The pre-65 retiree experience was blended with the active experience (after adjustments for aging and morbidity). Premiums and claims experience were then trended to FY 2004 and costs were calculated for each age. Dental coverage is offered through United Concordia and Delta Dental on a retiree-pay-all basis.

We assumed that future retirees will elect the benefit plan options in the same proportion as current retirees.

Actuarial Basis – WSSC

Statement of Assumptions and Methods

Mortality

1983 Group Annuity Mortality Table for males and females, set forward 1 year

Retirement

Rates of retirement are as follows:

Age	Rate
45	2%
46	2%
47	2%
48	2%
49	2%
50	4%
51	4%
52	4%
53	5%
54	5%
55	5%
56	5%
57	6%
58	6%
59	9%
60	10%
61	15%
62	30%
63	15%
64	32%
65	50%
66	60%
67	70%
68	80%
69	100%

Actuarial Basis – WSSC

Statement of Assumptions and Methods *(continued)*

Turnover

Select rates

Years of Service	Males	Females
0	0.150	0.140
1	0.140	0.130
2	0.130	0.120
3	0.120	0.110
4	0.100	0.090
5+	See below	See below

Ultimate rates

Age	Males	Females
25	0.060	0.060
30	0.036	0.051
35	0.023	0.045
40	0.019	0.038
45	0.018	0.035
50	0.018	0.035
55	0.018	0.035
60	0.018	0.035

Actuarial Basis – WSSC

Statement of Assumptions and Methods *(continued)*

Disability

Age	Males	Females
25	0.00021	0.00035
30	0.00028	0.00041
35	0.00035	0.00055
40	0.00048	0.00069
45	0.00069	0.00104
50	0.00124	0.00179
55	0.00248	0.00338
60	0.00621	0.00835

Dependents of Future Retirees

70% of all future retirees are assumed to have covered spouses. Male (female) spouses are assumed to be 3 years older (younger) than female (male) retirees.

Participation Rate

100% of all current participants will participate in the plan.

Investment Rate of return

4.00% for unfunded plan
8.00% for funded plan

Salary Scale

5.00%

Actuarial Basis – WSSC

Statement of Assumptions and Methods *(continued)*

Health Care Cost Trend Rates	Medical (including prescription drugs) - 13.50% annual rate of increase grading down to 5.50% over 8 years. (13.50%, 12.50%, 11.50%, 10.25%, 9.00%, 7.75%, 6.50%, 5.50%)
Administrative Expenses	Included in claim costs

Actuarial Basis - WSSC

Summary of Plan Provisions

Medical Plan

	Aetna U.S. Healthcare POS		
	In Network	Out of Network	Out of Service Area
Deductible	None	$250/indiv; $500/family	$200/person; $400/family
Out-of-pocket limit	$500/person; $1,000/family. Totals do not include co-pays	$2,250/person; $4,500/family, including deductible. Charges above UCR do not apply towards OOP.	$1,200/person; $2,400/family, including deductible. Charges above UCR do not apply towards OOP.
Lifetime maximum	None	None	None
Office visits	PCP: $15 copay Specialist: $15 copay	PCP: 70% after deductible Specialist: 70% after deductible	PCP: 80% after deductible Specialist: 80% after deductible
Out-patient Surgery	Covered at 100%	70% after deductible	80% after deductible
Maternity	$15 co-pay 1st visit then 100%	70% after deductible	80% after deductible
Diagnotic/Lab/X-ray	PCP: $15 copay Covered at 100% for inpatient & outpatient care	70% after deductible	80% after deductible
Physical, occupational therapy	100% coinsurance – 60 day calendar year maximum	70% after deductible – 60 day calendar year max	80% after deductible
Home health care	100% coinsurance – 120 visit calendar year max.	70% after deductible – 120 visit calendar year max.	120 visits per calendar year. Inpatient facility expenses, 180 day lifetime, other hospice care expenses.
Hospice care	180-day lifetime maximum for inpatient expenses. $10,000 lifetime max for outpatient expenses.	180-day lifetime maximum for inpatient expenses. $10,000 lifetime max for outpatient expenses.	180-day lifetime maximum for inpatient expenses. $10,000 lifetime max for outpatient expenses.
Vision	$15 copay for one eye exam every 24 months; 20% discount on lenses & frames at participating providers	$10 copay for eye exam	$20 reimbursement for eye exam. Plan pays specific amount towards frames & lenses; $100 maximum benefit per 12 month period.
Durable medical equipment	Covered at 100%	70% after deductible	80% after deductible
Prescription drug	Retail: $5/$10/$25 Mail order $5/$10 for 90-day supply	Retail: $5/$10/$25 Mail order $5/$10 for 90-day supply	Retail: $5/$10$/25 Mail order $5/$10 for 90-day supply
Retiree Contributions	20% of total cost	20% of total cost	20% of total cost

Actuarial Basis - WSSC

Summary of Plan Provisions *(continued)*

Medical Plan

	Blue Choice	Kaiser Permanente	Optimum Choice
Deductible	None	None	None
Out-of-pocket limit	Non-applicable	Non-applicable	$1,100 single/$3,200 family
Lifetime maximum	None	None	None
Office visits	PCP: $15 copay/ Specialist: $25 copay	$10 per visit	$15 copay
Out-patient Surgery	PCP: $15 copay/ Specialist: $25 copay	$10 per visit	Outpatient hospital covered in full; physician's office $15
Maternity	Covered in full, except Professional pre&postnatal care: $25 copay per visit (max. $200/pregnancy).	Covered at 100%	Hospitalization & birthing center: covered in full. Professional – pre&postnatal care and newborn pediatric care: $15 copay.
Diagnotic/Lab/X-ray	Labs & X-ray covered in full. Medical services -- PCP: $15 copay, specialist: $25.	Labs & X-ray covered in full. Medical services: $10/ visit.	$15 copay
Physical, occupational therapy	$25 copay up to 30 visits per condition or calendar year	$10 per visit; max. 40 visits or 90 days.	$15 copay. 60 combined visits/condition.
Home health care	Covered in full	Coverdd at 100%	Covered in full
Hospice care	Covered in full	Covered at 100%	Covered in full
Vision	$25 at plan-designated Vision Care Centers (no ref). $25 at Plan Physician offices (w/ ref). Limit 1 per calendar year. Discounts on glasses/contacts.	$10/visit: 25% discount on glasses and 15% discount on contacts.	Discounts available on lenses, frames and laser vision correction
Durable medical equipment	Covered in full	Covered 100% when deemed medically necessary	50% copayment
Prescription drug	Retail: $5/$10$/25. $4,000 maximum benefit per year. Mail order $10/$20$/50 for 90-day supply	$7 at Kaiser pharmacy; $20 at community contracted pharmacies; $7 mail order for 60 day supply.	$5/$10/$25.
Retiree Contributions	20% of total cost	20% of total cost	20% of total cost

Actuarial Basis - WSSC

Summary of Plan Provisions *(continued)*

Normal Retirement Age and Service Requirements:

Hired on or before June 30, 1978: Earlier of age 60 and 30 years of service.

Hired after June 30, 1978, but on or before March 31, 1994: Earlier of age 62 with 3 years of service, and 30 years of service with combined age and service over 85.

Early Retirement Age and Service Requirements:

Hired on or before June 30, 1978: Age 45 with 15 years of service, with combined age and service over 65.

Hired after June 30, 1978: Age 50 with 15 years of service.

Life insurance plan

For retirees: face amount of policy is equal to 85% of final salary at retirement. The policy value decreases by 15% annually until the policy value reaches 25% of final salary or $5,000, whichever is greater. Voluntary supplemental life insurance is also available.

WSSC pays the full cost of coverage.

Funding

Why Prefund?

The basic reasons for pre-funding are to:

- reduce the reported cost of the benefits by:
  - the investment income earned on plan assets, and
  - an opportunity in the GASB exposure drafts (see below)
- increase the security of benefits for participants

The GASB exposure draft says that when calculating the cost (ARC) of a retiree medical or life program, "the interest return assumption ... should be the estimated long-term rate investment yield on the investments that are expected to be used to finance the payment of benefits." If retiree medical and life plans will be funded, this presumably means something in the 7.5% to 8.5% ballpark, comparable to what you use for defined benefit plan funding. The exposure draft further states that we should look to returns on "assets of the employer for pay-as-you-go plans." Most general employer assets are invested in short term fixed income instruments with rates of return between money market rates and long-term bond rates.

Prefunding better matches the expense of the plan with the cash outlay and reduces the build up of an unfunded liability on the balance sheet.

The primary reasons not to prefund are:

- the employer has better uses for the money, and
- prefunding may imply or create a greater commitment to providing retirement medical coverage over the long run than the employer currently has.

Another consideration in prefunding is that it moves the status of retiree medical benefits from unsecured claims of the sponsor's creditors to secured claims.

The difference in ARCs for the funding vs. no-funding investment return assumption is highlighted on Page 2 of this report. Of course, the final GASB statements may eliminate this distinction.

What is Funding?

Funding is setting aside assets dedicated specifically to pay retiree medical benefits. Financing is the investment of funds to provide for retiree medical payments without dedicating cash flows to that purpose. Under FAS 106 (which applies in the private sector), funding removes assets from the corporate balance sheet and uses the return from those assets to offset the annual postretirement medical expense. Financing does neither.

Funding *(continued)*

Funding Vehicles

For private sector employers who pre-fund, the most popular vehicles are:

- VEBA or 501(c)(9) Trust
- 401(h) Account with pension plan or money purchase plan

In the public sector, a better funding vehicle – the "integral part" trust – is available. To date, the integral part trust concept has only surfaced in private letter rulings (PLR), not in IRS regulations.

Private Letter Rulings

In PLR 9809013 (11/7/97), the IRS reviewed a retiree premium program established by a municipal employer. Under this program, the employer established a medical premium account for each eligible retiree as part of a trust. The trust is administered by a board of trustees, some of whom are appointed by the employer and some of whom are appointed by retiree groups. All of the trustees are subject to approval by the municipal assembly. The accounts are credited with employer contributions, investment gains and losses, and forfeitures, and are charged with an allocable share of administrative expenses. Amounts accumulating in the accounts can be used only to pay or reimburse health insurance premiums. The employer administers the program, and pays for the associated labor and facility costs. The employer reserved the right to terminate the trust and program at any time.

The IRS concluded that the income of the trust is not taxable, and that the trust is not required to file a federal income tax return. The IRS based its conclusion on the so-called "integral part" doctrine. Under this doctrine, income earned by an enterprise that is an integral part of a state or a political subdivision of a state is not taxable. In assessing whether the trust was an integral part of the employer, the IRS noted that: (i) the employer made a substantial financial commitment to the program and the trust; and (ii) the employer exerted significant influence over the trust (the employer reserved the right to amend or terminate the trust, ran the day to day operations, and the trustees were approved by the employer's governing body).

In PLR 200012084 (12/28/99), the IRS reviewed a program established by a city employer to provide various post-employment benefits to city employees. Under this program, the employer established an account for each eligible employee as part of a trust. The trustee is only a holder of legal title — the trust is administered by the employer and the employer may appoint investment managers. The accounts are credited with employer contributions, investment gains and losses, and forfeitures. An employee may direct the investment of his or her account in investment options selected by the employer. Amounts accumulating in the accounts can be used to pay disability, severance, death and health benefits. The employer reserved the right to amend or terminate the trust at any time.

The IRS again concluded that the income of the trust is not taxable under the "integral part" doctrine. In assessing whether the trust was an integral part of the employer, the IRS noted that: (i) the employer

Funding *(continued)*

made a substantial financial commitment to the trust by providing all of its funding; and (ii) the employer exerted significant influence over the trust (the employer reserved the right to amend or terminate the trust, and retained control over the daily operation of the trust).

Comparing the Integral Part Trust Approach to Other Approaches

The integral part trust approach described in PLRs 9809013 and 200012084 offers several advantages over other retiree health funding approaches, such as a 401(h) account, a VEBA, or a rabbi trust. Some of the more significant differences are:

- A 401(h) account is subject to contribution limits while a tax-exempt trust is not. A 401(h) account can only be used to fund retiree health benefits while a tax-exempt trust can fund other benefits. Contributions to individual accounts in a 401(h) trust are treated as annual additions for purposes of Section 415 of the Internal Revenue Code, while contributions to a tax-exempt trust are not.

- A VEBA must submit a determination letter request to the IRS, while a tax-exempt trust is not required to do so. A VEBA is subject to nondiscrimination requirements under Code section 505(b) while an integral part trust isn't. A VEBA must file an annual information return with the IRS on Form 990, while an integral part trust doesn't need to file any return. A VEBA may only be used to fund certain benefits permitted under IRS regulations; similar restrictions don't apply to an integral part trust.

- A rabbi trust is subject to the claims of general creditors if a governmental employer becomes financially insolvent.

Prefunding with Employee Contributions

Just as many public sector employees contribute to their pension plans, employees may help to pay the cost of retiree medical and life plans while they are active employees. Some public sector employers have arranged for these contributions to be made on a pre-tax basis just as pension contributions often are. The features of this pre-tax approach that make it unattractive to some entities include:

- Once money goes into the plan, it must be used for medical premiums or expenses, even for employees who terminate before retirement.

- Individual employees can have no discretion in the amount of their contributions. However, different bargaining groups can have different levels of contributions.

- Administrative expenses can be significant, particularly if reimbursements for medical expenses, not just premium payments, are allowed.

See Appendix A for a participant-level description of one such program.

Appendix A

Minnesota State Retirement System – Health Care Savings Plan

MSRS **MINNESOTA STATE RETIREMENT SYSTEM**

HCSP Questions & Answers

General Information

Q. What is the MSRS Health Care Savings Plan?
A. It is a program established to provide totally tax-free reimbursement to individuals for the payment of eligible medical expenses, based on the potential contributions of employers, mandatory employee contributions and investment returns.

Q. Must employers participate in this plan?
A. Employer participation is a voluntary process gained through negotiations between each union and employers or under personnel policies.

Q. Must all unions agree on programs for the plan to be established?
A. No. Each union may independently bargain benefits and/or funding.

Q. Who is eligible to participate in the Health Care Savings Plan?
A. Any active public employee in Minnesota is eligible for plan participation if they are eligible to be covered by any of the following retirement plans:

- Minnesota State Retirement System (MSRS).
- Public Employees Retirement Association (PERA).
- Teachers Retirement Association (TRA).
- St. Paul Teachers Retirement Fund Association. (SPTRFA)
- Duluth Teachers Retirement Fund Association. (DTRFA)
- Minneapolis Teachers Retirement Fund Association. (MTRFA)
- Individual Retirement Account Plan (IRAP) administered by the Minnesota State Colleges and Universities (MNSCU).

Q. May an employee opt in or out of the Health Care Savings Plan?
A. No. Internal Revenue Service (IRS) rules require mandatory participation of all employees of a bargaining unit in order to gain totally tax-free benefit payments.

Q. What provision of tax law is the Health Care Savings Plan based on?
A. Governmental Integral Part Trust.

Appendix A *(continued)*

Contributions

Q. How may individual accounts be funded?
A. Through negotiated employer contributions, mandated employee contributions or negotiated benefit conversions such as severance pay, etc.

Q. May employees voluntary pay additional amounts into this plan?
A. No.

Q. Is there a maximum amount that may be paid into an individual account, either annually or over a career?
A. No. There is no maximum amount at this time

Investment Options

Q. May individuals direct the investment of their Health Care Savings Plan account assets?
A. Yes. The following investment options are provided by the State Board of Investment. You can change your investment choices once per month:

- Money Market Account
- Growth Share Account
- Fixed Interest Account
- Common Stock Index
- Income Share Account
- International Share Account
- Bond Market Account

Q. How may employees change their investment options?
A. Either through our website or on an investment selection form provided by MSRS.

Dependents

Q. May employees request reimbursements for dependent medical costs?
A. Yes. Dependents may also include spouse, children, grandparents and grandchildren if they meet the IRS definition of a dependent.

Q. May medical reimbursement be made for a domestic partner?
A. No. Federal law does not recognize domestic partner status.

Appendix A *(continued)*

Death Benefits

Q. If the employee and all other legal dependents are deceased and money still remains in the account, what happens to that residual value?
A. A designated beneficiary continues to use the account but it becomes a taxable event.

Q. Who may be designated as a beneficiary for a death benefit?
A. Anyone.

Refunds

Q. If an employee leaves public employment, may the account balance be refunded in cash?
A. No. Reimbursement may only be paid for documented health care expenses and may be claimed any time after termination.

Loans

Q. Are there any provisions for loans or emergency withdrawals?
A. No.

Transfers

Q. May the employee's Health Care Savings Plan account balances be transferred to another health care plan?
A. No. Federal rules involved in the creation of another health care plan may be different than the criteria established for the Health Care Savings Plan.

Fees

Q. What is the administrative fee for services?
A. The current fee is 15 basis points per quarter (15 cents per $100) with a maximum of $35 per quarter. The calculation is based on employee's account balance at the end of the quarter.

i:\trsdata\mont5a\2003\valreport.doc