

Key Benefit Concepts, LLC

Racine County School Office



Accounting and Sample Funding Report of
Liabilities for Participants' Post Employment
Benefits as of January 1, 2011

Thru End of the Year December 31, 2011

January 2012



BBB Rating: A+

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Background and Certification

The Government Accounting Standards Board (GASB) considers other post employment benefits, like pension benefits, as part of the compensation employees earn each year although they are not received until after employment ends. GASB has finalized Statement No. 43 (Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans) and Statement No. 45 (Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions). These Statements establish standards for the measurement, recognition, and display of Other Post Employment Benefits (OPEB) expense/expenditures and related liabilities.

Key Benefit Concepts, LLC (KBC) is an independent actuarial and employee benefits consulting firm providing actuarial services to clients who sponsor qualified retirement and other post-employment benefits. We maintain no relationships with any client that might impair the objectivity of our work. This valuation and report were prepared by KBC based upon:

- Our understanding of GASB's current Statements
- The Summary of Benefits and Eligibility determined by the bargaining and other School Office agreements, as outlined herein
- The accuracy and completeness of information and data as provided by the School Office.

The calculations of cost and liabilities illustrated were determined according to generally accepted actuarial principles and standards. Specific assumptions and actuarial methodology for the study are defined within the report. Given that actual experience may vary from the actuarial assumptions projected, developing liabilities and costs may differ from those estimated in this report. Furthermore, in the event of any inaccuracies in the information or data provided, upon which these calculations were based, revisions may be needed.

This report was prepared solely for the purposes of providing information required by GASB for the entity's financial reporting. KBC assumes neither responsibility nor any liability for use of this report for any other purposes.

Ted W. Windsor is an actuary meeting the qualifications of the American Academy of Actuaries required to provide the actuarial opinion detailed in this report.



Ted W. Windsor, ASA, EA, MAAA

January 25, 2012

Introduction

The actuarial present value of the other post employment benefit (OPEB) liabilities is the value of all benefits estimated to be payable to plan members discounted at the assumed discount interest rate back to the valuation date. The actuarial present value is comprised of:

- Benefits employees have already earned, and
- Benefits expected to be earned by employees in the future.

Presented in this report are the results of our study of the post employment benefits and the associated liabilities and costs. The study includes the following:

- Actuarial Accrued Liability (AAL): The portion of the actuarial present value of benefits allocated to all periods prior to the valuation date of January 1, 2011 also known as the accrued benefit.
- Normal Cost (NC): The portion of the actuarial present value of benefits allocated to the valuation year (i.e. the additional benefits to be earned from January 1, 2011 through December 31, 2011). This is not applicable in the School Office's case given that no active employee in this classification is eligible for such benefits.
- Unfunded Actuarial Accrued Liability (UAAL): The difference between the actuarial accrued liability and the actuarial value of assets. This amount may also be negative indicating the presence of a surplus of actuarial assets over actuarial accrued liabilities
- Annual Required Contribution (ARC): The employer's annual contribution comprised of the normal cost plus the portion of the unfunded actuarial accrued liability to be amortized in the valuation year.

School Office OPEB Benefits

For the Racine County School Office (the "School Office"), the other post employment benefit liability consists of several interdependent pieces arising from the rules of the plan. The amount paid by the School Office for continued medical care, for all those that are entitled to a benefit, is outlined below. A full description of the eligibilities and benefits for all eligible classifications can be found in the OPEB Technical Appendix.

School Office Retirees: The School Office will continue its contributions towards a retiree's medical premiums at the percentage determined upon their retirement. These contributions will continue for the lifetime of the retiree. This benefit applies only to current School Office retirees. No active employee in this classification will be eligible for such benefits.

In a standard OPEB valuation, the GASB guidelines require that the OPEB to be based upon the *value* of the health care benefit. Thus, when the benefits are insured, the value above the premium cost of benefits must be determined. This applies to all classifications and arises from the value of benefits in excess of the payments made by the School Office during the guaranteed period. This amount is determined and incorporated in the determined liability of the medical care benefit. As used above, *value* refers to the cost to the plan for providing coverage, which is greater than the aggregate premium charged for older participants. *Amount* refers to the dollar amount of premiums paid from the escrow account.

Amortization Method

The current guidelines allow two amortization methods:

Level Dollar Amortization Method – The amount to be amortized is divided into equal dollar amounts to be paid over a given number of years; part of each payment is interest and part is principle (similar to a mortgage payment on a building). Because payroll can be expected to increase as a result of inflation, level dollar payments generally represent a decreasing percentage of the payroll over time.

Level Percent Amortization Method – Amortization payments are calculated so that they increase at a constant percentage over a given number of years. The dollar amount of the payments generally will increase over time due to inflation; however the percentage increases in these payments can be expected to remain level.

Note: The OPEB Tables are based upon a 30-year amortization period.

School Office’s OPEB Liability

Based upon actuarial assumptions and projections described herein as determined by the census, benefit, claims and premium data provided by the County on behalf of the School Office, the post employment health care liabilities as of January 1, 2011 are as follows:

Other Post Employment Liability		
	Level \$ Amortization	Level % Amortization
1 Normal Cost with interest to end of year	\$ 0	\$ 0
2 Unfunded Actuarial Accrued Liability (UAAL)	\$ 13,895,081	\$ 13,895,081
3 30-yr. Amortization of UAAL	\$ 803,554	\$ 552,204
4 Annual Required Contribution (ARC)	\$ 803,554	\$ 552,204

Detailed calculations for the above results can be found in the OPEB Tables C and D.

Discussion of Valuation Methods and Assumptions

The valuation was based upon the data provided by the County on behalf of the School Office. In performing this study, we utilized the premium equivalent rate history as well as the claims experience of the County's self-insured plans and projected a stream of expected payments for each year in the future based on the data as of January 1, 2011.

Trend and retirement age are the most sensitive assumptions. Changes in these assumptions have the largest impact on the amount of liabilities. All of the demographic assumptions used for this report (i.e. other than trend, salary, payroll growth, expected discount rate, percent electing coverage and percent electing family coverage) are approximately the same as those used in the December 31, 2010 Wisconsin Retirement System's (WRS) annual report. The assumptions are shown in the OPEB Technical Appendix.

This is a subsequent valuation of the School Office's OPEB liabilities. Since the prior study, the School Office has not established a trust to fund its post-employment liabilities. As such, there are no assets to offset the School Office's unfunded actuarial accrued OPEB liability.

A discount rate of 4% (as the expected yield on general assets) was used in this valuation in calculating the OPEB liabilities. It was assumed that the School Office would continue to fund its retiree medical liabilities on a pay-as-you-go basis out of its general fund assets. Should the County on behalf of the School Office choose to establish a fund in the future and pre-fund one hundred percent (100%) of their post-employment liabilities in accordance with the ARC, then a higher discount rate (as the expected yield on long-term investments on an irrevocable trust) may be more appropriate.

Pay-As-You-Go

GASB requires all public entities to identify and include the OPEB liability in the entities' financial statements. However, GASB does not require any public entity to fund such liability. Since many public entities currently provide for OPEB benefits on a pay-as-you-go basis, we have included OPEB Table I. OPEB Table I illustrates, based upon the assumptions used in this valuation, the projected School Office's annual liability for retiree medical coverage on a pay-as-you-go basis.

The projections illustrated in OPEB Table I are for illustrative purposes and pertain only to the liabilities incurred from those retired employees of the School Office as of January 1, 2011. It is based upon a closed valuation, such that no new future retiree will be eligible to participate in this plan. The likelihood of actual costs equaling the stated projections decreases for each year projecting further into the future.

OPEB Tables

OPEB Table A

Racine County School Office
Active Employees as of January 1, 2011

Years of Service in Racine County School Office

Age	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 or more	Total
Under 20	-	-	-	-	-	-	-	-	-
20 - 24	-	-	-	-	-	-	-	-	-
25 - 29	-	-	-	-	-	-	-	-	-
30 - 34	-	-	-	-	-	-	-	-	-
35 - 39	-	-	-	-	-	-	-	-	-
40 - 44	-	-	-	-	-	-	-	-	-
45 - 49	-	-	-	-	-	-	-	-	-
50 - 54	-	-	-	-	-	-	-	-	-
55 - 59	-	-	-	-	-	-	-	-	-
60 - 64	-	-	-	-	-	-	-	-	-
65 and over	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-

Averages:

Age: N/A

Service: N/A

OPEB Table B

Racine County School Office
Members by Medical Coverage as of January 1, 2011

Medical Plan Enrollment

Actives	Retirees				
	Single	EE + Child(ren)	EE + Spouse	Family	Total
-	21	1	34	-	56

OPEB Table C

Racine County School Office
Determination of Normal Cost, Actuarial Accrued Liability
and Unfunded Actuarial Accrued Liability as of 1/1/2011

Total Incurred OPEB Liability

1. Normal cost as of 1/1/2011	\$0
2. Actuarial accrued liability as of 1/1/2011	
a. Current retiree value of OPEB	13,895,081
b. Future retiree (Current active) value of OPEB	0
c. Total actuarial accrued liability [#2a + #2b]	13,895,081
3. Actuarial value of assets	0
4. Unfunded actuarial accrued liability [#2c - #3]	\$13,895,081

OPEB Table D - Level % Amortization

Racine County School Office
Determination of 2011 Plan Year Annual Required Contribution (ARC)

Total Incurred OPEB Liability

1.	Normal cost	
	a. Beginning of year	\$0
	b. With interest to end of year	0
2.	Expected payroll for 2011 calendar year	n/a
3.	Unfunded actuarial accrued liability (UAAL)	13,895,081
4.	30 year amortization of UAAL as a level percent method	
	a. Dollars	552,204
	b. Percent of payroll	n/a
5.	Annual required contribution (ARC)	
	a. Normal cost	0
	b. Amortization	552,204
	c. Total contribution [a + b]	\$552,204

OPEB Table D - Level \$ Amortization

Racine County School Office
Determination of 2011 Plan Year Annual Required Contribution (ARC)

Total Incurred OPEB Liability

1.	Normal cost	
	a. Beginning of year	\$0
	b. With interest to end of year	0
2.	Expected payroll for 2011 calendar year	n/a
3.	Unfunded actuarial accrued liability (UAAL)	13,895,081
4.	30 year amortization of UAAL as a level dollar method	
	a. Dollars	803,554
	b. Percent of payroll	n/a
5.	Annual required contribution (ARC)	
	a. Normal cost	0
	b. Amortization	803,554
	c. Total contribution [a + b]	\$803,554

OPEB Table E - Level % Amortization

Racine County School Office

Annual OPEB Cost and Net OPEB Obligation for the Fiscal Year Ending December 31, 2011

	<u>Total</u>
Annual required contribution (ARC)	\$552,204
Interest on net OPEB obligation	68,793
Adjustment to annual required contribution	(68,348)
Annual OPEB cost (expense)	\$552,649
Contributions made	TBD
Change in net OPEB obligation	TBD
Net OPEB obligation - beginning of year	\$1,719,832
Net OPEB obligation - end of year	TBD

History of OPEB Cost, Percentage Of Annual Contribution and Net OPEB Obligation

Valuation Year Ending	Annual OPEB Cost *	Percentage of Annual OPEB Cost Contributed *	Net OPEB Obligation *
12/31/2008	\$1,052,402	72.10%	\$587,001
12/31/2009	\$1,295,482	56.58%	\$1,149,495
12/31/2010	\$1,288,750	55.74%	\$1,719,832
12/31/2011	\$552,649	TBD	TBD

*** Estimated amounts relating to this group based upon County audit.**

OPEB Table E - Level \$ Amortization

Racine County School Office

Annual OPEB Cost and Net OPEB Obligation for the Fiscal Year Ending December 31, 2011

	<u>Total</u>
Annual required contribution (ARC)	\$803,554
Interest on net OPEB obligation	68,793
Adjustment to annual required contribution	(99,458)
Annual OPEB cost (expense)	\$772,889
Contributions made	TBD
Change in net OPEB obligation	TBD
Net OPEB obligation - beginning of year	\$1,719,832
Net OPEB obligation - end of year	TBD

History of OPEB Cost, Percentage Of Annual Contribution and Net OPEB Obligation

Valuation Year Ending	Annual OPEB Cost *	Percentage of Annual OPEB Cost Contributed *	Net OPEB Obligation *
12/31/2008	\$1,052,402	72.10%	\$587,001
12/31/2009	\$1,295,482	56.58%	\$1,149,495
12/31/2010	\$1,288,750	55.74%	\$1,719,832
12/31/2011	\$772,889	TBD	TBD

*** Estimated amounts relating to this group based upon County audit.**

OPEB Table F

Racine County School Office
 Required Supplementary Information
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Projected Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a) / c)
1/1/2010	\$0	\$22,588,251	\$22,588,251	0.00%	N/A	N/A
1/1/2011	\$0	\$13,895,081	\$13,895,081	0.00%	N/A	N/A

OPEB Table G

Racine County School Office
Significant Methods and Assumptions

Actuarial valuation date	1/1/2011
Actuarial cost method	Unit credit
Amortization method	30 year open level dollar & level percent
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial Assumptions	
Investment rate of return *	4.00%
Level percent increases (for level percent amortization)	3.00%
Medical care trend *	10.00% decreasing by 1.00% per year down to 5.00%

* Implicit in this rate is an assumed rate of inflation of 4.00%

OPEB Table H - Level % Amortization

Racine County School Office
 Historical Development of Annual Net OPEB Obligation

Total Incurred OPEB Liabilities

Valuation Year Ending	ARC	Interest on Net OPEB Obligation *	ARC Adjustment *	Amort. Factor	OPEB Cost *	Contribution *	Change in Net OPEB Obligation *	Net OPEB Obligation Balance *
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
12/31/2008	\$1,056,981	11,735	(16,314)	17.98	\$1,052,402	(758,782)	293,620	\$587,001
12/31/2009	\$1,304,643	23,480	(32,641)	17.98	\$1,295,482	(732,988)	562,494	\$1,149,495
12/31/2010	\$1,306,689	45,980	(63,919)	17.98	\$1,288,750	(718,412)	570,338	\$1,719,832
12/31/2011	\$552,204	68,793	(68,348)	25.16	\$552,649	TBD	TBD	TBD

* Estimated amounts relating to this group based upon County audit.

OPEB Table H - Level \$ Amortization

Racine County School Office
 Historical Development of Annual Net OPEB Obligation

Total Incurred OPEB Liabilities

Valuation Year Ending	ARC	Interest on Net OPEB Obligation *	ARC Adjustment *	Amort. Factor	OPEB Cost *	Contribution *	Change in Net OPEB Obligation *	Net OPEB Obligation Balance *
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
12/31/2008	\$1,056,981	11,735	(16,314)	17.98	\$1,052,402	(758,782)	293,620	\$587,001
12/31/2009	\$1,304,643	23,480	(32,641)	17.98	\$1,295,482	(732,988)	562,494	\$1,149,495
12/31/2010	\$1,306,689	45,980	(63,919)	17.98	\$1,288,750	(718,412)	570,338	\$1,719,832
12/31/2011	\$803,554	68,793	(99,458)	17.29	\$772,889	TBD	TBD	TBD

* Estimated amounts relating to this group based upon County audit.

OPEB Table I

Racine County School Office
Pay As You Go
Projection of Premium Contributions

<i>Calendar Year</i>	<i>County's Premium Contributions</i>
2011	\$848,901
2012	\$841,875
2013	\$877,827
2014	\$869,377
2015	\$870,329
2016	\$871,089
2017	\$806,977
2018	\$787,915
2019	\$759,566
2020	\$753,546

OPEB Technical Appendix

Racine County School Office

Post Employment Benefit Summary

School Office Employees

Only Current Retirees	
Eligibility	OPEB
No active employees qualify	<u>Medical Insurance:</u> The School Office will continue its contributions towards a retiree's medical premiums at the percentage determined upon their retirement. These contributions will continue for the lifetime of the retiree.

OPEB Actuarial Assumptions

1. Actuarial Valuation Date	January 1, 2011																																										
2. Actuarial Cost Method	<u>Unit Credit</u> : The calculation of retirement plan benefits is based upon the accumulation of “benefit units” earned from such things as salary and/or service years. A Plan’s normal cost is determined by the present value of benefits allocated to the valuation year. A Plan’s accrued liability is the present value of benefits allocated to all periods prior to the valuation year.																																										
3. Interest Rate	Discount rate for valuing liabilities – 4.00% Interest rate on plan assets – 4.00% Implicit in these rates is a 4.00% assumed rate of inflation																																										
4. Level Percent Increase	3.00% – Used only for with the level percent amortization of Unfunded Actuarial Accrued Liability																																										
5. Amortization Method	30 year open level percent & level dollar method																																										
6. Remaining Amortization Period	30 years																																										
7. Asset Valuation Method	Market Value																																										
8. Mortality Rates	Participant mortality rates at sample ages: <table border="1"> <thead> <tr> <th><u>Age</u></th> <th><u>Male</u></th> <th><u>Female</u></th> </tr> </thead> <tbody> <tr><td>20</td><td>0.000233</td><td>0.000077</td></tr> <tr><td>25</td><td>0.000303</td><td>0.000085</td></tr> <tr><td>30</td><td>0.000368</td><td>0.000115</td></tr> <tr><td>35</td><td>0.000391</td><td>0.000203</td></tr> <tr><td>40</td><td>0.000492</td><td>0.000285</td></tr> <tr><td>45</td><td>0.000725</td><td>0.000446</td></tr> <tr><td>50</td><td>0.001184</td><td>0.000614</td></tr> <tr><td>55</td><td>0.002085</td><td>0.001281</td></tr> <tr><td>60</td><td>0.003038</td><td>0.002174</td></tr> <tr><td>65</td><td>0.004660</td><td>0.003325</td></tr> <tr><td>70</td><td>0.008171</td><td>0.005327</td></tr> <tr><td>75</td><td>0.015030</td><td>0.009751</td></tr> <tr><td>80</td><td>0.027138</td><td>0.016934</td></tr> </tbody> </table>	<u>Age</u>	<u>Male</u>	<u>Female</u>	20	0.000233	0.000077	25	0.000303	0.000085	30	0.000368	0.000115	35	0.000391	0.000203	40	0.000492	0.000285	45	0.000725	0.000446	50	0.001184	0.000614	55	0.002085	0.001281	60	0.003038	0.002174	65	0.004660	0.003325	70	0.008171	0.005327	75	0.015030	0.009751	80	0.027138	0.016934
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9. Retirement	Not Applicable																																										
10. Separation Rates	Not Applicable																																										

<p>11. Disablement Rates</p>	<p>Participant disablement rates at sample ages:</p> <p style="text-align: center;">General</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>Age</u></th> <th style="text-align: center;"><u>Male</u></th> <th style="text-align: center;"><u>Female</u></th> </tr> </thead> <tbody> <tr><td style="text-align: center;">20</td><td style="text-align: center;">0.01%</td><td style="text-align: center;">0.01%</td></tr> <tr><td style="text-align: center;">25</td><td style="text-align: center;">0.01</td><td style="text-align: center;">0.01</td></tr> <tr><td style="text-align: center;">30</td><td style="text-align: center;">0.01</td><td style="text-align: center;">0.03</td></tr> <tr><td style="text-align: center;">35</td><td style="text-align: center;">0.01</td><td style="text-align: center;">0.04</td></tr> <tr><td style="text-align: center;">40</td><td style="text-align: center;">0.04</td><td style="text-align: center;">0.06</td></tr> <tr><td style="text-align: center;">45</td><td style="text-align: center;">0.08</td><td style="text-align: center;">0.09</td></tr> <tr><td style="text-align: center;">50</td><td style="text-align: center;">0.18</td><td style="text-align: center;">0.14</td></tr> <tr><td style="text-align: center;">55</td><td style="text-align: center;">0.34</td><td style="text-align: center;">0.25</td></tr> <tr><td style="text-align: center;">60</td><td style="text-align: center;">0.60</td><td style="text-align: center;">0.35</td></tr> </tbody> </table>		<u>Age</u>	<u>Male</u>	<u>Female</u>	20	0.01%	0.01%	25	0.01	0.01	30	0.01	0.03	35	0.01	0.04	40	0.04	0.06	45	0.08	0.09	50	0.18	0.14	55	0.34	0.25	60	0.60	0.35
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<p>12. Medical Trends (Annual Increases)</p>	<p><u>Year</u></p> <p>1</p> <p>2</p> <p>3</p> <p>4</p> <p>5</p> <p>6</p> <p>7</p> <p>8</p> <p>9</p> <p>10</p> <p>11</p> <p>12</p> <p>13 & over</p>	<p><u>Medical Trend</u></p> <p>10.0%</p> <p>9.0</p> <p>8.0</p> <p>7.0</p> <p>6.0</p> <p>5.0</p> <p>5.0</p> <p>5.0</p> <p>5.0</p> <p>5.0</p> <p>5.0</p> <p>5.0</p> <p>5.0</p>																														
<p>13. Age Related Health Care Cost</p>	<p>Health care costs are assumed to increase at 2.5% per year of age separate from trend due to increased cost of older participants.</p>																															
<p>14. Percent Electing Coverage at Retirement</p>	<p>Continued coverage only applies to current School Office retirees</p>																															
<p>15. Spouses' Age</p>	<p>Males are assumed to be three years older than their spouses</p>																															