

**CITY OF GRAND RAPIDS FIRE
OTHER POSTEMPLOYMENT BENEFITS
ACTUARIAL VALUATION REPORT
JUNE 30, 2014**

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January 26, 2015

Mr. Scott Buhner
Chief Financial Officer
City of Grand Rapids
300 Monroe Avenue, N. W.
Grand Rapids, MI 49503

Dear Mr. Buhner:

Submitted in this report are the results of an Actuarial Valuation of the benefit values associated with the employer financed Other Postemployment Benefits provided by the City of Grand Rapids for Firefighters. The date of the valuation was June 30, 2014, effective for the fiscal year beginning July 1, 2015. This report was prepared at the request of the City of Grand Rapids.

The actuarial calculations were prepared for purposes of complying with the requirements of Statements No. 43 and No. 45 of the Governmental Accounting Standards Board (GASB). The calculations reported herein have been made on a basis consistent with our understanding of these accounting standards. Determinations of the liability associated with the benefits described in this report for purposes other than satisfying the System's financial reporting requirements may produce significantly different results.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

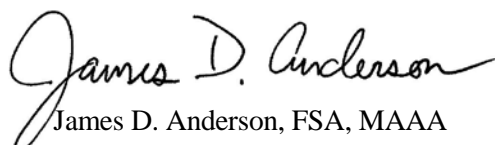
This report may be provided to parties other than the City of Grand Rapids only in its entirety and only with the permission of the City of Grand Rapids. This report should not be relied on for any purpose other than the purpose described herein.

The valuation was based upon information, furnished by the City and Meritain, concerning retiree health care benefits, individual members, and financial data. Data was checked for internal consistency, but was not otherwise audited.

To the best of our knowledge, this report is complete and accurate and was made in accordance with generally recognized actuarial methods.

James D. Anderson and Abra D. Hill are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. The signing actuaries are independent of the plan sponsor.

Respectfully submitted,


James D. Anderson, FSA, MAAA


Abra D. Hill, ASA, MAAA

JDA/ADH:mrb
C2482

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Annual Required Contribution

This report presents the Annual Required Contribution calculated in compliance with the accounting requirements of Governmental Accounting Standards Board (GASB) Statement No. 45. In addition, the plan may need to comply with GASB Statement No. 43. Please consult with legal counsel and your auditors to determine whether you have a plan for GASB Statement No. 43 purposes.

The total Annual Required Contribution (ARC) for the fiscal year beginning July 1, 2015 was determined to be \$3,461,882 (\$3,420,760 for DB, \$41,122 for RHSA). Actual claims and/or premiums paid on behalf of retirees may be treated as employer contributions in relation to the ARC and act to reduce the NOO if paid from outside of plan assets. The total expected employer portion of the claims and premium amounts paid during the fiscal year beginning July 1, 2015 are estimated to be \$2,362,737 (\$2,362,737 for DB, \$0 for RHSA). These amounts reflect the employer portion of the retiree only premium rates and the implicit subsidy for retirees and covered spouses.

For additional details, please see Section A of the report.

Additional OPEB Reporting Requirements

In addition to the annual OPEB cost described above, employers will have to disclose a Net OPEB Obligation (or asset). The Net OPEB Obligation is the cumulative difference between annual OPEB costs and annual employer contributions in relation to the ARC, accumulated from the implementation of GASB Statement No. 45.

The requirements for determining the employer's contributions in relation to the ARC are described in paragraph 13 g. of GASB Statement No. 45. Additional information required to be disclosed in the employer's financial statements is detailed in paragraphs 24 through 27 of GASB Statement No. 45.

EXECUTIVE SUMMARY (CONCLUDED)

Liabilities and Assets

The total present value of all benefits expected to be paid to current plan members as of June 30, 2014 is \$53,039,668 (\$52,332,581 for DB, \$707,087 for RHSA). The actuarial accrued liability, which is the portion of the \$53,039,668 attributable to service accrued by plan members as of June 30, 2014, is \$39,586,693 (\$39,489,584 for DB, \$97,109 for RHSA). The actuarial value of assets currently set aside for OPEB purposes as of June 30, 2014 are \$10,276,569. Assets are currently only allocated to the Defined Benefit portion of the plan. Thus, the Fire DB plan is 26.0% funded.

SECTION A
VALUATION RESULTS

**DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTIONS
FOR THE OTHER POSTEMPLOYMENT BENEFITS**

Contributions for	Fire - Annual Required Contribution		
	Defined Benefit ¹	RHSA ²	Total
Normal Cost			
Normal Retirement	\$ 759,904		
Termination Benefits	134,401		
Disability/Death-In-Service	<u>586,433</u>		
Total Normal Cost	\$ 1,480,738	\$ 34,193	\$ 1,514,931
Amortization of Unfunded Actuarial Accrued Liabilities (Amortized over 26 years)	\$ 1,940,022	\$ 6,929	\$ 1,946,951
Annual Required Contribution (ARC) for the Fiscal Year Ending June 30, 2016	\$ 3,420,760	\$ 41,122	\$ 3,461,882

The unfunded actuarial accrued liabilities were amortized as level dollar. A 26-year amortization period for unfunded actuarial accrued liabilities was used. Thirty years is the maximum period that complies with GASB requirements. The assumptions used to calculate the results shown above include a 5% investment return rate. This rate is intended to be a blend of a short-term and long-term investment return assumption.

- 1 For City budgeting purposes related to the Defined Benefit Plan.
- 2 RHSA information as required for GASB disclosure which reflects the ability of Defined Contribution participants to access the Health Care plan at reduced cost due to blended rates plus employer paid duty disability benefits.

**DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
AS OF JUNE 30, 2014**

	Fire		
	Defined Benefit¹	RHSA²	Total
A. Present Value of Future Benefits			
1. Retirees and Beneficiaries	\$17,672,808	\$ 0	\$17,672,808
2. Vested Terminated Members	616,529	0	616,529
3. Active Members	<u>34,043,244</u>	<u>707,087</u>	<u>34,750,331</u>
Total Present Value of Future Benefits	\$52,332,581	\$707,087	\$53,039,668
B. Present Value of Future Employer Normal Costs	12,842,997	609,978	13,452,975
C. Actuarial Accrued Liability (A.-B.)	39,489,584	97,109	39,586,693
D. Market Value of Assets	10,276,569	0	10,276,569
E. Unfunded Actuarial Accrued Liability (C.-D.)	\$29,213,015	\$ 97,109	\$29,310,124
F. Funded Ratio (D./C.)	26.0%	0.0%	26.0%

The Unfunded Actuarial Accrued Liability (UAAL) is not booked as an expense all in one year and does not appear in the Employer's Statement of Net Assets. Nevertheless, it is reported in the Notes to the Financial Statements and in the Required Supplementary Information. These are information sections within the employer's financial statements. The assumptions used to calculate the results shown above include a 5% investment return rate. This rate is intended to be a blend of a short-term and long-term investment return assumption.

1 For City budgeting purposes related to the Defined Benefit Plan.

2 RHSA information as required for GASB disclosure which reflects the ability of Defined Contribution participants to access the Health Care plan at reduced cost due to blended rates plus employer paid duty disability benefits.

**PROJECTIONS
AS OF JUNE 30, 2014***

Year Ending June 30,	Asset Value BOY	Annual Required Contribution	Health Care Benefits	Investment Income	Asset Value EOY
2016	\$ 12,249,037	\$ 3,420,760	\$ 2,362,737	\$ 638,580	\$ 13,945,639
2017	13,945,639	3,361,676	2,647,253	714,925	15,374,987
2018	15,374,987	3,297,080	2,991,969	776,284	16,456,382
2019	16,456,382	3,225,900	3,329,176	820,269	17,173,375
2020	17,173,375	3,152,933	3,678,300	845,695	17,493,703
2021	17,493,703	3,076,575	4,009,380	851,649	17,412,547
2022	17,412,547	2,997,276	4,206,149	840,774	17,044,448
2023	17,044,448	2,916,807	4,393,468	815,756	16,383,543
2024	16,383,543	2,832,610	4,414,985	780,100	15,581,268
2025	15,581,268	2,747,966	4,377,868	738,813	14,690,179
2026	14,690,179	2,668,807	4,453,096	690,446	13,596,336
2027	13,596,336	2,594,457	4,427,831	634,542	12,397,504
2028	12,397,504	2,523,204	4,207,632	578,278	11,291,354
2029	11,291,354	2,452,102	4,170,550	522,130	10,095,036
2030	10,095,036	2,385,263	4,182,063	460,380	8,758,616
2031	8,758,616	2,326,359	3,906,737	398,903	7,577,141
2032	7,577,141	2,277,753	3,632,074	345,412	6,568,232
2033	6,568,232	2,233,286	3,491,383	297,343	5,607,478
2034	5,607,478	2,187,611	3,228,174	254,677	4,821,593
2035	4,821,593	2,143,744	2,859,261	223,410	4,329,485
2036	4,329,485	2,105,157	2,658,118	202,819	3,979,343
2037	3,979,343	2,075,048	2,449,329	189,724	3,794,786
2038	3,794,786	2,046,628	2,157,796	186,994	3,870,612
2039	3,870,612	2,018,709	1,843,158	197,866	4,244,029
2040	4,244,029	1,996,370	1,657,035	220,581	4,803,945
2041	4,803,945	1,979,912	1,462,230	252,981	5,574,608
2042	5,574,608	28,680	1,459,011	243,408	4,387,685
2043	4,387,685	18,411	1,337,540	186,808	3,255,364
2044	3,255,364	10,647	1,051,167	137,072	2,351,916
2045	2,351,916	6,222	766,294	98,826	1,690,670
2046	1,690,670	3,934	585,221	70,179	1,179,562
2047	1,179,562	2,383	534,017	45,849	693,777
2048	693,777	1,112	321,535	26,776	400,130
2049	400,130	423	132,103	16,755	285,205
2050	285,205	120	140,440	10,795	155,679
2051	155,679	23	109,502	5,080	51,280
2052	51,280	1	52,547	1,266	0

* The projected results above are based on the existing Defined Benefit active, deferred, and retired members on the valuation date. Any benefits and/or contributions associated with Defined Contribution members, or members hired after the valuation date have not been included in these results.

Unfunded actuarial accrued liabilities were amortized over a 26-year period.

COMMENTS

COMMENT A: One of the key assumptions used in any valuation of the cost of postemployment benefits is the long-term rate of investment return on plan assets. If a plan sponsor chooses to pre-fund with contributions less than the ARC, the Governmental Accounting Standards Board (GASB) requires using an assumed investment return on assets that reflects the expected return on the plan sponsor's general assets. If a plan sponsor chooses to pre-fund with contributions equal to the ARC a higher interest rate may be used. As directed by the City, we have calculated the liability and the resulting ARC using an assumed investment return of 5.0%. It is our understanding that the City of Grand Rapids is funding only the Defined Benefit portion of the ARC.

COMMENT B: Based on the number of plan members as of this valuation, the plan sponsor is required by GASB to perform actuarial valuations at least biennially.

COMMENT C: The contribution rates shown include amortization of the unfunded actuarial accrued liability over 26 years. A shorter amortization period would result in a higher ARC, and a longer amortization period would result in a lower ARC. The maximum time period permitted by GASB Statement No. 45 is 30 years.

COMMENT D: Actual claims and/or premiums paid on behalf of retirees may be treated as employer contributions in relation to the ARC and act to reduce the NOO if paid from outside of plan assets. For the fiscal year ending June 30, 2016, the amount of estimated claims and/or premiums paid by the employer on behalf of retirees including the effect of the implicit rate subsidy under GASB is \$2,362,737. This entire amount is allocated to the Defined Benefit group. There are no estimated claims and/or premium costs for the RHSA group for the fiscal year ending June 30, 2016.

COMMENT E: The Annual Required Contributions determined in this report are lower than those determined in last year's report as of June 30, 2013. The plan had favorable experience due to greater than expected investment return, non-Medicare claims that were slightly lower than expected, and contributions that were slightly greater than the ARC, which were partially offset by the resetting of the trend assumption.

COMMENT F: The cost of health care coverage for the children of retirees was estimated to be an additional 16% of pre-65 retiree liabilities. A 12% load was applied to all liabilities to value the additional cost of children's coverage. This was unchanged from the June 30, 2013 valuation.

COMMENTS

COMMENT G: Projections presented in this report will differ from those provided in the Trend Report dated November 20, 2014 due to:

- Age-based projection methodology used in this report versus non age-based projections used in the Trend Report;
- Data variances;
- Projected cash flows in this report are net of retiree contributions; and
- The valuation year starts July 1st while the rating year (for Trend Report purposes) starts January 1st.

COMMENT H: 100% of future eligible RHSA retirees were assumed to participate in the City of Grand Rapids Retiree Health Care Plan. The ARC for the RHSA was provided for GASB reporting purposes. It is the decision of the City of Grand Rapids how to pre-fund the RHSA portion of the ARC, if at all. RHSA balances were not provided, and have not been used to offset benefits for future Duty Disability Retirements.

COMMENT I: The trend rates for Medical and Prescription Drugs were reset for this valuation. All other assumptions remain unchanged. We recommend that the City of Grand Rapids review demographic assumptions prior to the next OPEB valuation.

SECTION B

RETIREE PREMIUM RATE DEVELOPMENT

RETIREE PREMIUM RATE DEVELOPMENT

The initial per capita health care costs are an important part of a retiree health valuation. The per capita health care costs used in this valuation are based on analysis performed in connection with the annual Trend Report prepared for the City dated November 20, 2014. The following process is used to determine per capita health costs for the valuation from the results provided in the Trend Report:

- The pre-65 retiree only “calculated rates” developed on page 18 of the Trend Report serve as the basis of pre-65 per capita costs used in the valuation. The per contract rates are converted to per member rates and then converted to age-graded rates.
- The 2015 blended (pre-65 retiree and active) implemented rates (page 19 of the Trend Report) serve as the basis for pre-65 retiree contributions.
- The post 65 retirees pay 100% of the true cost developed on page 18.

Please see the Trend Report for other important details regarding the rate setting process. A general description of the process follows.

Background

Eligible City retirees (and eligible spouses) receive benefits from the self-insured plan. For Non-Medicare retirees, there is one benefit option and for Medicare retirees, there is a choice of four options with the same medical benefits but differing drug copays.

Rate Development

For the self-insured medical plans, initial per capita costs were developed separately for pre-65 and post-65 retirees using medical claims experience from July 2012 to June 2014 supplied by Meritain in conjunction with exposure data for the retired members of the health care program. These medical claims were projected on an incurred claim basis (using best estimate assumptions), adjusted for plan design changes, and loaded for administrative expenses.

For the self-insured drug plans, initial per capita costs were developed using drug claims experience July 2012 to June 2014 supplied by Meritain in conjunction with exposure data for the retired members of the health care program. These drug claims were projected on an incurred claim basis, adjusted for plan design changes and administrative expenses.

RETIREE PREMIUM RATE DEVELOPMENT

No Early Retirement Reinsurance Program (ERRP) reimbursements were reflected in the rates due to the short term nature of the program.

The initial medical and drug premium rates used in the valuation are a weighted average cost of the two-year experience period to smooth out any large year to year fluctuations.

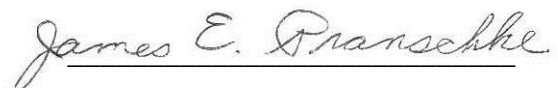
Age graded and sex distinct per capita costs are utilized by this valuation. The initial costs developed are appropriate for the unique age and sex distribution currently existing. Over the future years covered by this valuation, the age and sex distribution will most likely change. Therefore, our process “distributes” the average premium over all age/sex combinations and assigns a unique premium for each combination. This process more accurately reflects health care costs in the retired population over the projection period.

The tables below shows the combined medical and prescription drug one-person monthly per capita costs at select ages.

Current and Future Retirees			
For Those Not Eligible for Medicare			
Age	Male	Female	
45	\$ 535.06	\$ 700.48	
50	723.88	820.20	
55	946.10	972.51	
60	1,188.57	1,142.48	

The dental and vision per capita costs used in this valuation of the plan were not “age graded” since these claims do not vary significantly by age. The monthly dental per capita cost used in this valuation is \$35.33 per person per month. The monthly vision per capita cost used in this valuation is \$8.14 per person per month.

James E. Pranschke is a Member of the American Academy of Actuaries (MAAA) and meets the Qualification Standards of the American Academy of Actuaries to certify the per capita retiree health care rates shown above.



James E. Pranschke, FSA, MAAA

CONSIDERATION OF HEALTH CARE REFORM

Excise Tax on High-Cost Employer Health Plans (aka Cadillac Tax) Effective 1/1/2018. The “Cadillac” tax is a 40% excise tax paid by the coverage provider (employer and/or insurer) on the value of health plan costs in excess of certain thresholds. The thresholds are \$10,200 for single coverage or \$27,500 for family coverage in 2018. Many plans are below the thresholds today, but are likely to exceed them in the next decade. The thresholds will be indexed at CPI-U, which is lower than the medical inflation rates affecting the cost of the plans. There is considerable uncertainty about how the tax would be applied, and considerable latitude in grouping of participants for tax purposes. Combining early retiree and Medicare eligible retiree costs is allowed and can keep plans under the thresholds for a longer period of time.

For this Plan it is intended that, for purposes of the test, the pre and post Medicare members will be blended. Should the excise tax ever become applicable, and since all the health care plans are self-funded, then the Plan Sponsor will be the coverage provider paying the tax. The Plan Sponsor will need to decide whether to reduce benefits to avoid the tax, or how the additional cost will be allocated between the employer and the members. A 3.0% load was applied to all health care liabilities to approximate the cost for future excise tax.

We have not identified any other specific provision of health care reform that would be expected to have a significant impact on the measured obligation. As additional guidance on the legislation is issued, we will review and monitor those impacts.

SECTION C

SUMMARY OF BENEFIT PROVISIONS AND VALUATION DATA

CITY OF GRAND RAPIDS FIRE RETIREE HEALTH CARE PLAN
DEFINED BENEFIT HEALTH CARE
SUMMARY OF BENEFITS AS OF JUNE 30, 2014

Plan Participants

Fire and IAFF members of the City of Grand Rapids Retiree Health Care Plan are eligible to receive retiree health care benefits. The City covers up to 100% of retiree health care coverage up to age 65.

Benefit Amount

Defined Benefit Retiree Health covers up to 100% of retiree health care coverage up to age 65 based on an accrual schedule. As of 5/12/2009, future retirees will pay a minimum of 20% of BLENDED active/pre-65 retiree cost per contract. This is applied before the accrual schedule shown below. Active employees with less than 10 years are no longer eligible for the Defined Benefit plan.

Retiree Health Care Blended Composite Premium Sharing

Years	Months	Contract	City	Blended Premium	
		City%	Maximum	City%	EE%
10	120	40%	80%	32.0%	68.0%
11	132	44%	80%	35.2%	64.8%
12	144	48%	80%	38.4%	61.6%
13	156	52%	80%	41.6%	58.4%
14	168	56%	80%	44.8%	55.2%
15	180	60%	80%	48.0%	52.0%
16	192	64%	80%	51.2%	48.8%
17	204	68%	80%	54.4%	45.6%
18	216	72%	80%	57.6%	42.4%
19	228	76%	80%	60.8%	39.2%
20	240	80%	80%	64.0%	36.0%
21	252	84%	80%	67.2%	32.8%
22	264	88%	80%	70.4%	29.6%
23	276	92%	80%	73.6%	26.4%
24	288	96%	80%	76.8%	23.2%
25	300	100%	80%	80.0%	20.0%
Age 55 & 10 years svc.		100%	80%	80.0%	20.0%
Disability Retirement		100%	80%	80.0%	20.0%

CITY OF GRAND RAPIDS FIRE RETIREE HEALTH CARE PLAN
DEFINED BENEFIT HEALTH CARE
SUMMARY OF BENEFITS AS OF JUNE 30, 2014

Normal Retirement Eligibility

Age 55 with 10 years. Firefighter members may also retire at the age their service reaches the pension service credit limit.

Deferred Retirement Benefits

Deferred retiree health care is available to terminated Firefighter members with 10 or more years of service. Deferred benefits begin at age 55.

Duty/Non-Duty Death-In-Service Retirement Benefits

No age or service requirement. Benefits are immediate.

Duty/Non-Duty Disabled Retirement Benefits

No age or service requirement. Benefits commence immediately for qualified disabled member.

Benefits for Spouses of Retired Employees

Spouses of retired employees are eligible to receive health care benefits as long as the retiree is eligible. Coverage continues to surviving spouses of deceased retirees until the earlier of when retiree would have reached age 65 or when the spouse reaches age 65.

Medicare-Eligible Provisions

Retirees are required to enroll in Medicare once eligible. Retiree is responsible for paying the full premium for retiree Medicare coverage offered through the City.

Dental/Vision Coverage

Same as Retiree Health Care Eligibility Conditions.

Life Insurance Coverage

The City does not provide life insurance for retirees.

Opt-Out

The City does not provide Opt-Out payments or payment in lieu of retiree health care coverage for retirees.

Other Employment and Compensation

A retiree, spouse or other dependent who has coverage from an employer who provides medical coverage should coordinate benefits, making the City's coverage secondary.

This is a brief summary of the City of Grand Rapids Retiree Health Care Plan provisions. In the event that any description contained herein differs from the actual eligibility or benefit, the appropriate employee contract or governing document will prevail.

CITY OF GRAND RAPIDS FIRE RETIREE HEALTH CARE PLAN
RHSA MEMBERS
SUMMARY OF BENEFITS AS OF JUNE 30, 2014

Plan Participants

Fire and IAFF members participating in RHSA through the City of Grand Rapids are eligible to purchase retiree health care benefits until Medicare eligible.

Benefit Amount

Defined Contribution RHSA members can purchase retiree health care coverage through the City by paying the full blended (active/pre-65 retiree) premium. For Duty Death-In-service retirements and Duty Disability retirements, after RHSA is exhausted, the City will resume paying the premiums less any applicable premium sharing amount until such time as the covered person would have reached age 65. Defined contributions paid by the City or the member to the RHSA accounts were not included in this valuation.

Normal Retirement Eligibility

Age 55 with 10 years. Firefighter members may also retire at the age their service reaches the pension service credit limit.

Deferred Retirement Benefits

Retiree health care is not available to deferred retirees whose coverage ceases during deferral period. RHSA members can purchase retiree health care coverage through the City by paying the full blended (active/pre-65 retiree) premium.

Duty Death-In-Service Retirement Benefits

No age or service requirement for duty death-in-service. Benefits are immediate. Premiums shall be first paid to the City from funds in the employee's RHSA account if the surviving spouse and/or eligible dependents wish to continue to receive retiree health care. When RHSA is exhausted, the City shall resume paying the premiums, less any applicable premium sharing amount until such time as the covered person would have reached age 65.

Non-Duty Death-In-Service Retirement Benefits

No age or service requirement for duty death-in-service. Benefits are immediate.

Duty Disabled Retirement Benefits

No age or service requirement. Benefits commence immediately for qualified disabled member. Premiums shall be first paid to the City from funds in the employee's RHSA account if the surviving spouse and/or eligible dependents wish to continue to receive retiree health care. When RHSA is exhausted, the City shall resume paying the premiums, less any applicable premium sharing amount until such time as the covered person would have reached age 65.

Non-Duty Disabled Retirement Benefits

No age or service requirement. Benefits commence immediately for qualified disabled member.

CITY OF GRAND RAPIDS FIRE RETIREE HEALTH CARE PLAN
RHSA MEMBERS
SUMMARY OF BENEFITS AS OF JUNE 30, 2014

Benefits for Spouses of Retired Employees

Spouses of retired employees are eligible to receive health care benefits as long as the retiree is eligible. Coverage continues to surviving spouses of deceased retirees until the earlier of when retiree would have reached age 65 or when the spouse reaches age 65.

Medicare-Eligible Provisions

Retirees are required to enroll in Medicare once eligible. Retiree is responsible for paying the full premium for retiree Medicare coverage offered through the City.

Dental/Vision Coverage

Same as Retiree Health Care Eligibility Conditions.

Life Insurance Coverage

The City does not provide life insurance for retirees.

Opt-Out

The City does not provide Opt-Out payments or payment in lieu of retiree health care coverage for retirees.

Other Employment and Compensation

A retiree, spouse or other dependent who has coverage from an employer who provides medical coverage should coordinate benefits, making the City's coverage secondary.

This is a brief summary of the City of Grand Rapids Retiree Health Care Plan provisions. In the event that any description contained herein differs from the actual eligibility or benefit, the appropriate employee contract or governing document will prevail.

CITY OF GRAND RAPIDS FIRE
ACTIVE MEMBER DEMOGRAPHIC DATA AS OF JUNE 30, 2014

Attained Age	Years of Service to Valuation Date							Total No.
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	
20-24	2							2
25-29	10	1						11
30-34	11	6	3					20
35-39	3	5	8	4				20
40-44	2	2	7	15	6			32
45-49		1	4	19	24	3		51
50-54			1	4	18	24		47
55-59			1	1	9	7		18
Totals	28	15	24	43	57	34		201

The active member counts above include current active employees who participate in the City's defined contribution plan and are eligible to purchase retiree health benefits through the City.

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age: 42.2 years
Service: 16.4 years

**CITY OF GRAND RAPIDS FIRE
 RETIRED AND DEFERRED
 MEMBER DEMOGRAPHIC DATA AS OF JUNE 30, 2014**

Fire Retirees

Attained Age	Number of Retirees		
	Male	Female	Total
Under 55	15	5	20
55-59	34	5	39
60-64	20	1	21
65 & Over	7	4	11
Totals	76	15	91

There are no RHSA Fire retirees.

Fire Vested Deferred

Attained Age	Number of Deferred Members		
	Male	Female	Total
Under 40	0	0	0
40-44	0	0	0
45-49	2	0	2
50 & Over	0	0	0
Totals	2	0	2

Only retirees and vested deferred members valued in this report are shown in the exhibits above.

SECTION D

ACTUARIAL COST METHOD AND ACTUARIAL ASSUMPTIONS

VALUATION METHODS

Actuarial Cost Method. Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an **Individual Entry-Age Normal Actuarial Cost Method** having the following characteristics:

- (i) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement;
- (ii) each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Actuarial gains (losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

Financing of Unfunded Actuarial Accrued Liabilities. Unfunded Actuarial Accrued Liabilities (UAAL) were amortized on a level dollar basis. The UAAL were determined using the funding value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL amortization payment is the amount required to fully amortize the UAAL over a 26-year period beginning July 1, 2015. This UAAL payment reflects payments expected to be made between the valuation date and the fiscal year for which the contributions in this report have been calculated. The 26-year amortization factor used is 14.7317.

Rates of Investment Return under a partially funded arrangement. 5.0% per year, compounded annually, net of expenses. This rate consists of a real rate of return of 1.5% per year plus a long-term rate of wage growth of 3.5% per year. This assumption is used to equate the value of payments due at different points in time.

The total number of active defined benefit retiree health care participants is expected to decline in the future.

ACTUARIAL ASSUMPTIONS

The rates of salary increase used for individual members are in accordance with the following table. The assumption is used to project a member's current salary to the salaries upon which future contributions will be based.

Years of Service	% Increase in Salary		
	Merit & Seniority	Base (Economic)	Increase Next Year
0	17.00%	3.50%	20.50%
1	7.00%	3.50%	10.50%
2	6.00%	3.50%	9.50%
3	5.00%	3.50%	8.50%
4	4.00%	3.50%	7.50%
5 & Beyond	1.00%	3.50%	4.50%

The mortality tables used to project the mortality experience of Fire plan members is the 1983 Group Annuity Male and Female Mortality Tables set back three years for males and two years for females. For disabled Fire retirees, the 1983 Group Annuity Male and Female Mortality Tables Set forward 10 years for males and females. Based on observation from the most recent experience study as of December 31, 2009, it appears that the current table provides a margin of 11% for future mortality improvements for males. There were insufficient numbers of female retired members to lend credibility to any comments regarding a margin for future mortality improvements.

Sample Ages	Probability of Dying Next Year		Future Life Expectancy (years)	
	Men	Women	Men	Women
50	0.28 %	0.14 %	31.90	36.81
55	0.48	0.21	27.42	32.10
60	0.71	0.34	23.13	27.48
65	1.11	0.58	19.02	23.02
70	1.98	0.97	15.23	18.76
75	3.34	1.85	11.92	14.81
80	5.48	3.45	9.08	11.40

ACTUARIAL ASSUMPTIONS (CONTINUED)

The rates of normal retirement used to measure the probability of eligible members retiring under normal retirement conditions during the next year, were as follows:

Retirement Ages	Percent of Eligible Active Members Retiring within Next Year
	Fire
50	25 %
51	25
52	25
53	25
54	25
55	25
56	25
57	25
58	25
59	25
60	25
61	25
62	25
63	25
64	25
65	50
66	60
67	70
68	80
69	90
70	100

ACTUARIAL ASSUMPTIONS (CONTINUED)

Rates of separation from active membership are used to estimate the number of employees at each age that are expected to terminate employment before qualifying for retirement benefits. The withdrawal rates do not apply to members eligible to retire, and do not include separation on account of death or disability.

Sample rates of separation from active employment are shown below:

Sample Ages	% of Active Members Separating within Next Year
25	2.76 %
30	2.28
35	1.56
40	1.08
45	0.84
50	0.72
55	0.72
60	0.72

ACTUARIAL ASSUMPTIONS (CONCLUDED)

Rates of disability among active members are used to estimate the incidence of member disability in future years. 70% of Fire disabilities were assumed to be non-duty related and 30% of disabilities are assumed to be duty related.

Sample Ages	Percent Becoming Disabled within Next Year
20	0.16 %
25	0.16
30	0.16
35	0.36
40	0.78
45	1.40
50	2.24
55	3.34

Health care trend rates used in the valuation were as shown below.

Year	Medical and Prescription Drugs	Dental	Vision
2015	8.00 %	3.50 %	3.50 %
2016	8.00	3.50	3.50
2017	8.00	3.50	3.50
2018	8.00	3.50	3.50
2019	7.50	3.50	3.50
2020	7.00	3.50	3.50
2021	6.50	3.50	3.50
2022	5.75	3.50	3.50
2023	5.00	3.50	3.50
2024	4.25	3.50	3.50
2025	3.50	3.50	3.50
2026 & Later	3.50	3.50	3.50

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

Decrement Operation:	Disability and mortality decrements do not operate during the first five years of service. Disability also does not operate during retirement eligibility.
Decrement Timing:	Decrements of all types are assumed to occur mid-year.
Eligibility Testing:	Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
Marriage Assumption:	90% of Fire males and females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses for active member valuation purposes.
Medicare Coverage:	Assumed to be available for all covered employees on attainment of age 65.
Covered Children:	A 12% load was applied for children's coverage.
Election Percentage:	(Fire) It was assumed that 100% of retirees would choose to receive retiree health care benefits through the City. Of those assumed to elect coverage, 75% of retirees were assumed to elect two-person coverage, if eligible. For those that elect two-person coverage, it was assumed that coverage would continue to the spouse upon death of the retiree 100% of the time, if eligible.
Retiree Opt-Outs:	Retirees and spouses who have opted-out of coverage are assumed to not re-enroll.
Patient Protection and Affordable Care Act:	In general, changes related to the Patient Protection and Affordable Care Act are reflected to the extent that they are already implemented in the Plan and future changes will be reflected as they become effective. However, a contingency load of 3% was applied to the valuation results in anticipation of future cost increases resulting from this Act. Actual cost increases could be higher. For example, the excise tax applicable to health plan benefits over certain statutory limits is estimated at this time to be 10% of claims. This could raise valuation results an additional 7% (10% - 3%).
Deferred and Retired Members:	With the exception of one RHSA retiree, all retired members valued in this valuation were assumed to be part of the Defined Benefit plan. Current deferred members not electing to continue coverage through the deferral period are ineligible to participate in the Defined Benefit Retiree Health Care plan.

SECTION E

GASB DISCLOSURES

This information is presented in draft form for review by the Plan and/or City auditor. Please let us know if there are any items that the auditor changes so that we may maintain consistency with the Plan and/or City financial statements.

GASB STATEMENTS NO. 43 AND NO. 45
REQUIRED SUPPLEMENTARY INFORMATION

Valuation Date	June 30, 2014
Actuarial Cost Method	Individual Entry Age Normal Cost
Amortization Method	Level Dollar Closed
Remaining Amortization Periods	26 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	5.0% Per Year
Projected Salary Increases	
Fire	4.50% - 20.50%
Valuation Health Care Cost Trend Rate:	
Medical and Drug	8.0% in 2015-2018, Grading to 3.5% in 2025
Dental and Vision	3.5% in All Years

GASB STATEMENTS NO. 43 AND NO. 45
REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)
2009	\$ 0	\$ 44,488,777	\$ 44,488,777	0.0 %
2011	2,556,684	36,411,404	33,854,720	7.0 %
2012	6,190,800	32,755,074	26,564,274	18.9 %
2013	8,003,318	38,953,456	30,950,138	20.5 %
2014	10,276,569	39,586,693	29,310,124	26.0 %

Calculation of Net OPEB Obligation

Valuation Date June 30	Fiscal Year Ending June 30	Annual Required Contribution	Annual OPEB Costs*	Percentage of ARC Contributed	Percentage of OPEB Costs Contributed	Net OPEB Obligation*
						\$ 3,365,847
2009	2010	\$ 3,574,369	\$ 3,537,667	45.1%	45.6%	5,289,866
2009	2011	3,574,369	3,592,147	107.5%	107.0%	5,039,316
2011	2012	3,935,129	3,867,214	134.3%	136.7%	3,621,899
2011	2013	3,921,500	3,869,173	89.6%	90.8%	3,977,998
2012	2014	3,157,470	3,095,818	102.2%	104.3%	3,846,211
2013	2015	3,622,949	3,558,950	N/A	N/A	N/A
2014	2016	3,461,882	N/A	N/A	N/A	N/A

* Figures prior to FY 2012 are based on client provided information. The NOO for the fiscal year ending June 30, 2014 was calculated using an employer contribution of \$3,227,605.

The exhibits on this page show results for both the Defined Benefit group and the RHSA group combined.

APPENDIX A

OVERVIEW

GASB BACKGROUND

The purpose of this valuation is to provide information on the cost associated with providing postemployment benefits other than pensions, or OPEB, to current and former employees. The information is designed to assist you in complying with Governmental Accounting Standards Board (GASB) Statements No. 43 and No. 45. OPEB benefits are most often associated with postemployment health care, but cover almost any benefit not provided through a pension plan, including life insurance, dental and vision benefits. It is important to note that OPEB benefits, by definition, do not include benefits *currently* being provided to active employees – however, this report includes the liabilities for benefits expected to be paid to current active employees in the future when they retire.

GASB Statements No. 43 and No. 45 were released in the spring of 2004. GASB Statement No. 43 covers the accounting rules for OPEB *plans* while GASB Statement No. 45 describes the rules for *employers* sponsoring OPEB plans. Your auditor can assist you in determining which statements apply to your particular situation.

The specific items required to be disclosed on an OPEB sponsor's financial statements are described in detail in GASB Statements No. 43 and No. 45.

GASB Statement No. 45

Among the requirements of Statement No. 45 are recognition each year of an expense called the Annual OPEB Cost, and the accumulation of a liability to be disclosed on the employer's Statement of Net Assets called the Net OPEB Obligation (NOO).

The fundamental items required to determine the Annual OPEB Cost and the NOO are:

- the Annual Required Contribution (ARC)
- the Employer's Contributions in relation to the ARC

Although GASB does not require OPEB contributions, it has chosen to call the base component of the annual OPEB cost the Annual Required Contribution. The ARC is provided in this report.

GASB BACKGROUND (CONCLUDED)

Paragraph 13g. of Statement No. 45 states:

“An employer has made a contribution in relation to the ARC if the employer has:

1. made payments of benefits directly to or on behalf of a retiree or beneficiary,
2. made premium payments to an insurer, or
3. irrevocably transferred assets to a trust, or equivalent arrangement in which Plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the Plan and are legally protected from creditors of the employer(s) or plan administrator.”

For each fiscal year shown in this report, we have provided the ARC and the estimated benefits and/or premiums (based on valuation assumptions).

The NOO is the cumulative difference between the Annual OPEB Cost each year and the Employer’s Contribution in relation to the ARC. The Annual OPEB Cost for a year is equal to:

- the ARC, plus
- interest on the prior year’s NOO, plus
- amortization of the prior year’s NOO.

The Annual OPEB Cost and NOO are generally developed by the Plan Sponsor’s auditor based on information contained herein and elsewhere.

GASB Statement No. 43

If the Plan has assets for Statement No. 43 purposes, then certain additional information useful in complying with the Statement is contained in this report.

OPEB PRE-FUNDING

Many employers fund retiree health care benefits using the pay-as-you-go (or cash disbursement) method. Under this method, the employer's annual contribution is equal to the actual disbursements during the year for OPEB for retired employees. This method of funding will result in increasing contributions over time. First, per capita cash disbursements will tend to increase from year to year as the cost of health care services, or the utilization of these services increase. Second, the number of retired members is likely to increase for years to come. The more retirees, the greater the disbursements as a percentage of employee payroll.

A retiree health care plan is similar to a defined benefit pension plan in that promises are made to employees to provide them with a benefit payable at some future date. For defined benefit pension plan sponsors, a common funding objective is to contribute to a fund, annual amounts which will i) remain level as a percentage of active member payroll, and ii) when combined with present assets and future investment return be sufficient to meet the financial obligations of the Plan to current and future retirees.

The GASB statements are not funding requirements. They are accounting standards that require plan sponsors to calculate the annual expense associated with OPEB using certain methods.

The ultimate determination as to the level of pre-funding will be the result of decisions made in an attempt to support benefit security for members and the fiscal management needs of the employer.

APPENDIX B

GLOSSARY

GLOSSARY

Accrued Service - The service credited under the plan which was rendered before the date of the actuarial valuation.

Actuarial Accrued Liability - The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as "accrued liability" or "past service liability."

Actuarial Assumptions - Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

Actuarial Cost Method - A mathematical budgeting procedure for allocating the dollar amount of the "actuarial present value of future plan benefits" between the actuarial present value of future normal cost and the actuarial accrued liability. Sometimes referred to as the "actuarial funding method."

Actuarial Equivalent - A single amount or series of amounts of equal value to another single amount or series of amounts, computed on the basis of the rate(s) of interest and mortality tables used by the plan.

Actuarial Present Value - The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Amortization - Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.

GLOSSARY (CONCLUDED)

Annual Required Contribution (ARC) - The ARC is the normal cost plus the portion of the unfunded actuarial accrued liability to be amortized in the current period. The ARC is an amount that is actuarially determined in accordance with the requirements so that, if paid on an ongoing basis, it would be expected to provide sufficient resources to fund both the normal cost for each year and the amortized unfunded liability.

Governmental Accounting Standards Board (GASB) - GASB is the private, nonpartisan, nonprofit organization that works to create and improve the rules U.S. state and local governments follow when accounting for their finances and reporting them to the public.

Medical Trend Rate (Health Care Inflation) - The increase in the cost of providing health care benefits over time. Trend includes such elements as pure price inflation, changes in utilization, advances in medical technology, and cost shifting.

Normal Cost - The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as "current service cost." Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.

Other Postemployment Employee Benefits (OPEB) - OPEB are postemployment benefits other than pensions. OPEB generally takes the form of health insurance and dental, vision, prescription drugs or other health care benefits.

Reserve Account - An account used to indicate that funds have been set aside for a specific purpose and is not generally available for other uses.

Unfunded Actuarial Accrued Liability - The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as "unfunded accrued liability."

Valuation Assets - The value of current plan assets recognized for valuation purposes.

January 26, 2015

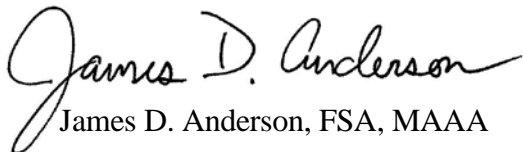
Mr. Scott Buhner
Chief Financial Officer
City of Grand Rapids
300 Monroe Avenue, N. W.
Grand Rapids, MI 49503

Re: City of Grand Rapids Fire Other Postemployment Benefits Valuation

Dear Mr. Buhner:

Enclosed are 4 copies of our report of the actuarial valuation as of June 30, 2014 of the City of Grand Rapids Fire Other Postemployment Benefits.

Respectfully submitted,


James D. Anderson, FSA, MAAA

JDA:mrp
Enclosures