

MILWAUKEE PUBLIC SCHOOLS
RETIREE HEALTHCARE AND LIFE INSURANCE PROGRAMS
ACTUARIAL VALUATION AS OF JULY 1, 2009

June 25, 2010

Ms. Michelle Nate, CPA
Chief Financial and Operations Officer
Milwaukee Public Schools
Administration Building
5225 West Vliet Street
P.O. Box 2181
Milwaukee, WI 53201-2181

Dear Ms. Nate:

We have performed an actuarial valuation as of July 1, 2009, of the Retiree Healthcare and Life Insurance Programs sponsored by the Milwaukee Public Schools. The actuarial valuation was performed in order to:

- Measure the actuarial liability as of July 1, 2009, and
- Develop retiree healthcare accounting expense information for fiscal years 2010 and 2011 as defined under the GASB Statement Nos. 43 and 45.

In addition, we have performed ten-year actuarial projections of the GASB expense and funding requirements.

The valuation was based on the following:

- Census data projected to July 1, 2009, and premium information as provided by Milwaukee Public Schools Staff, and claims, expenses, and enrollment data for the period from April 1, 2007, to March 31, 2009, as disclosed in the plan's most recent premium rating reports as prepared by the healthcare actuary and provided by Milwaukee Public Schools Staff;
- Plan provisions and funding policy in effect as of July 1, 2009, as provided by the Milwaukee Public Schools as summarized in Section E. The employer has established an IRC Section 115 trust to prefund retiree healthcare benefits and expects to contribute 105 percent of actual retiree healthcare claims to the trust beginning in fiscal year 2011;
- Our understanding of the substantive plan in effect as currently being administered; and
- Actuarial assumptions and methods as shown in Section F as used for the valuations of the Milwaukee Public Schools Supplemental Pension Plans for Teachers and Administrators, and the City of Milwaukee Employees' Retirement System (ERS) for other labor units.

The calculations reported herein have been made on a basis consistent with our understanding of GASB Statements Nos. 43 (*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*) and 45 (*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*). The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the Academy of Actuaries to render the actuarial opinion herein.

If you have any questions or comments, please call us at 312-456-9800.

Sincerely,



Alex Rivera, F.S.A., M.A.A.A.
Senior Consultant



Amy Williams, A.S.A., M.A.A.A.
Consultant

AR: kb
Enclosures

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SECTION A

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

This report presents the results of our actuarial valuation as of July 1, 2009, for the Retiree Healthcare and Life Insurance Programs sponsored by the Milwaukee Public Schools. The valuation was based on GASB Statement Nos. 43 and 45. Our valuation was based on a discount rate assumption of 4.55 percent and an ultimate healthcare trend assumption of 4.5 percent, as approved by Milwaukee Public Schools. The employer has established an IRC Section 115 trust to prefund retiree healthcare benefits, and expects to contribute 105 percent of actual retiree healthcare claims to the trust beginning in fiscal year 2011. Ongoing net claims are paid from the IRC Section 115 trust. The discount rate of 4.55 percent reflects the plan sponsors prefunding policy. The key valuation results using the Entry Age Normal cost method are summarized below:

Retiree Healthcare and Life Insurance Programs 4.55% Discount Rate and 4.50% Ultimate Trend \$ in Thousands							
	Board/ Cabinet/ ASC	Building Trades	Local 1053	Local 150 Building Service	Local 150 Food Service	Local 1616	Local 950
Actuarial Liability as of July 1, 2009	\$234,854.0	\$44,797.3	\$100,914.0	\$45,198.0	\$124,688.5	\$34,377.0	\$66,175.4
Normal Cost for FY 2010	\$5,094.0	\$1,093.6	\$2,694.3	\$2,553.8	\$4,750.7	\$1,093.1	\$1,588.2
GASB No. 45 FY 2010 Expense (% of Payroll)	\$14,789.9 25.9%	\$2,947.6 35.0%	\$6,878.8 43.1%	\$4,442.7 45.2%	\$9,939.5 73.0%	\$2,519.2 33.5%	\$4,328.0 37.6%
FY 2010 Employer Pay-go Contribution (% of Payroll)	\$7,633.4 13.4%	\$1,532.0 18.2%	\$2,568.2 16.1%	\$552.0 5.6%	\$2,259.8 16.6%	\$847.0 11.3%	\$1,601.8 13.9%
Payroll	\$56,996.0	\$8,419.8	\$15,961.5	\$9,819.3	\$13,615.2	\$7,520.2	\$11,516.9
Number of Actives Members	648	148	492	413	793	172	260
Number of Retirees and Surviving Spouses	738	175	311	76	292	98	174

	MTEA – Educational Assistants	MTEA – Sub Teachers	MTEA Teachers	PAMPS	Others	Total
Actuarial Liability as of July 1, 2009	\$229,379.8	\$34,432.3	\$1,453,371.6	\$23,220.3	\$6,721.5	\$2,398,129.6
Normal Cost for FY 2010	\$10,604.0	\$1,712.7	\$56,174.2	\$784.7	\$115.5	\$88,258.5
GASB No. 45 FY 2010 Expense (% of Payroll)	\$20,174.6 61.5%	\$3,149.9 35.8%	\$116,556.5 35.2%	\$1,749.6 17.9%	\$391.5 47.1%	\$187,867.7 37.0%
FY 2010 Employer Pay-go Contribution (% of Payroll)	\$2,560.2 7.8%	\$719.9 8.2%	\$39,837.2 12.0%	\$537.1 5.5%	\$431.2 51.9%	\$61,079.8 12.0%
Payroll	\$32,792.1	\$8,804.4	\$331,310.6	\$9,752.3	\$830.6	\$507,339.1
Number of Active Members	1,779	314	5,847	150	21	11,037
Number of Retirees and Surviving Spouses	330	61	3,812	56	13	6,136

The details of the preceding valuation results by labor unit are included in Section B of the report.

Our calculations are based on adoption at July 1, 2007, and an opening transition liability of zero at that date. The Net OPEB Obligation or balance sheet liability represents the cumulative differences between Annual OPEB Costs and actual employer contributions.

If Milwaukee Public Schools continues to fund retiree healthcare benefits predominantly on a pay-as-you-go basis, including contributing 105 percent of actual retiree healthcare claims, the Net OPEB Obligation is expected to grow to approximately \$1.8 billion after 10 years. The details of the projections are shown in Section B.

EXECUTIVE SUMMARY

There were certain Wisconsin mandated benefit changes that affect healthcare plans that are effective after the valuation date of July 1, 2009. The benefit changes include offering healthcare coverage to adult child dependents up to age 27, covering the cost of hearing aids and cochlear implant for infants and children, and covering treatment of autism spectrum disorders.

Changes attributable to state and federal mandated benefit changes that are effective after July 1, 2009, were not considered in this actuarial valuation, but will be recognized in the subsequent valuation.

Plan Experience

The actuarial liabilities increased from \$2,222.7 million as of July 1, 2007, to \$2,398.1 million as of July 1, 2009. If the plan's assumptions had been exactly realized during the two-year period, the actuarial liabilities would have increased to \$2,497.7 million as of July 1, 2009.

The key factors contributing to the unanticipated decrease in actuarial liabilities of \$99.6 million include:

- A change in demographic assumptions used in the City of Milwaukee Employees' Retirement System (ERS) resulted in a decrease in the actuarial liabilities of approximately \$18.3 million.
- Actual healthcare costs increased less than the assumed healthcare trend used in the July 1, 2007, actuarial valuation which resulted in a decrease in actuarial liabilities of \$16.4 million.
- A change in discount rate assumption from 4.50 percent to 4.55 percent to reflect that Milwaukee Public Schools will begin funding 105 percent of actual retiree healthcare claims resulted in a decrease in actuarial liabilities of \$18.8 million.
- Demographic and other experience, including less retirements and less new actives than expected, resulted in a decrease in actuarial liabilities of \$46.1 million.

\$ in Millions

Actuarial Liability as of July 1, 2007	\$2,222.7
Expected Liability as of July 1, 2009	\$2,497.7
Increase/(Decrease) Due To:	
Change in Pension Plan Assumptions	-18.3
Healthcare Experience and Assumptions	-16.4
Change in Discount Rate	-18.8
Demographic and Other	-46.1
Actuarial Liability as of July 1, 2009	\$2,398.1

SECTION B

VALUATION RESULTS AT 4.55% DISCOUNT AND
4.5% TREND

VALUATION RESULTS AT 4.55% DISCOUNT AND 4.5% TREND

The following tables show the results of our valuation assuming a discount rate of 4.55 percent, salary increases comprised of a wage inflation component of 3.0 percent and a seniority and merit component, and an ultimate healthcare trend rate of 4.5 percent. We believe these assumptions are consistent with the requirements of GASB Statement Nos. 43 and 45. According to paragraph 34(c) of GASB Statement No. 43 and paragraph 13(c) of GASB Statement No. 45, plans should use a discount rate consistent with the return on assets backing retiree healthcare benefits, which for pay-as-you-go plans will usually be the return earned by the employer's general assets. Milwaukee Public Schools has established an IRC Section 115 trust to prefund retiree healthcare benefits, and expects to contribute 105 percent of actual retiree claims to the trust beginning in fiscal year 2011. Ongoing costs for the fiscal year will be paid from the Section 115 trust.

The following tables are included in this section:

- GASB Valuation as of July 1, 2009, by Labor Unit
- Projected GASB expense for fiscal year end 2011 by Labor Unit

**Milwaukee Public Schools
Retiree Healthcare and Life Insurance Programs
GASB 45 Actuarial Valuation as of July 1, 2009
Entry Age Normal Cost Method**

Discount Rate 4.55%
Salary Scale ¹ 3.00%
Ultimate Trend 4.50%
Wage Inflation 3.00%
Amortization: 30-year open, level percentage of payroll

	Board/ Cabinet/ ASC	Building Trades	Local 1053	Local 150 Building Service	Local 150 Food Service	Local 1616	Local 950	MTEA – Educational Assistants	MTEA – Sub Teachers	MTEA Teachers	PAMPS	Others ²	Total
Retiree Healthcare Program													
I) Actuarial Liability													
A) Health Insurance													
i) Active Employees ³	\$ 121,842,096	\$ 24,922,591	\$ 64,159,367	\$ 38,192,447	\$ 93,374,127	\$ 22,171,269	\$ 41,951,127	\$ 192,161,721	\$ 23,396,875	\$ 849,269,620	\$ 14,697,249	\$ 2,460,296	\$ 1,488,598,785
ii) Retired and Disabled Participants ⁴	102,464,418	18,481,808	34,898,676	6,691,967	30,631,873	11,408,601	22,788,137	34,952,146	10,293,497	562,909,447	7,767,451	1,809,472	845,097,493
iii) Total	\$ 224,306,514	\$ 43,404,399	\$ 99,058,043	\$ 44,884,414	\$ 124,006,000	\$ 33,579,870	\$ 64,739,264	\$ 227,113,867	\$ 33,690,372	\$ 1,412,179,067	\$ 22,464,700	\$ 4,269,768	\$ 2,333,696,278
B) Life Insurance													
i) Active Employees	\$ 3,873,409	\$ 565,585	\$ 806,707	\$ 115,799	\$ 144,600	\$ 424,635	\$ 684,417	\$ 1,490,154	\$ 421,671	\$ 16,187,114	\$ 424,109	\$ 46,940	\$ 25,185,140
ii) Retired and Disabled Participants	6,674,037	827,280	1,049,213	197,796	537,912	827,474	751,716	775,818	320,238	25,005,384	331,528	2,404,831	39,248,227
iii) Total	\$ 10,547,446	\$ 1,392,865	\$ 1,855,920	\$ 313,595	\$ 682,512	\$ 797,109	\$ 1,436,133	\$ 2,265,972	\$ 741,909	\$ 41,192,498	\$ 755,637	\$ 2,451,771	\$ 64,433,367
B) Total Liabilities	\$ 234,853,960	\$ 44,797,264	\$ 100,913,963	\$ 45,198,009	\$ 124,688,512	\$ 34,376,979	\$ 66,175,397	\$ 229,379,839	\$ 34,432,281	\$ 1,453,371,565	\$ 23,220,337	\$ 6,721,539	\$ 2,398,129,645
II) Assets													
-													
III) Unfunded Actuarial Liability (UAL)	234,853,960	44,797,264	100,913,963	45,198,009	124,688,512	34,376,979	66,175,397	229,379,839	34,432,281	1,453,371,565	23,220,337	6,721,539	2,398,129,645
IV) Net OPEB Obligation (boy) ⁵	12,389,435	3,376,771	9,427,229	7,536,719	15,805,362	3,356,043	5,238,262	34,734,720	5,358,084	162,063,094	2,633,048	27,434	261,946,201
V) Normal Cost													
A) Health Insurance													
i) Normal Cost	\$ 4,914,067	\$ 1,068,837	\$ 2,658,581	\$ 2,551,689	\$ 4,747,375	\$ 1,070,078	\$ 1,556,995	\$ 10,506,645	\$ 1,662,615	\$ 55,103,812	\$ 763,245	\$ 112,292	\$ 86,716,231
ii) Life Insurance	179,956	24,790	35,715	2,064	3,297	22,977	31,156	97,305	50,042	1,070,430	21,426	3,158	1,542,316
iii) Total	\$ 5,094,023	\$ 1,093,627	\$ 2,694,296	\$ 2,553,753	\$ 4,750,672	\$ 1,093,055	\$ 1,588,151	\$ 10,603,950	\$ 1,712,657	\$ 56,174,242	\$ 784,671	\$ 115,450	\$ 88,258,547
B) Amortization of UAL													
i) Normal Cost	\$ 5,094,023	\$ 1,093,627	\$ 2,694,296	\$ 2,553,753	\$ 4,750,672	\$ 1,093,055	\$ 1,588,151	\$ 10,603,950	\$ 1,712,657	\$ 56,174,242	\$ 784,671	\$ 115,450	\$ 88,258,547
ii) Amortization of UAL	9,640,779	1,838,932	4,142,529	1,855,383	5,118,476	1,411,179	2,716,507	9,416,066	1,413,449	59,661,053	953,197	275,920	98,443,470
iii) Total	\$ 14,734,802	\$ 2,932,559	\$ 6,836,825	\$ 4,409,136	\$ 9,869,148	\$ 2,504,234	\$ 4,304,658	\$ 20,020,016	\$ 3,126,106	\$ 115,835,295	\$ 1,737,868	\$ 391,370	\$ 186,702,017
VI) Annual Required Contribution (ARC)													
A) Normal Cost													
i) Normal Cost	\$ 5,094,023	\$ 1,093,627	\$ 2,694,296	\$ 2,553,753	\$ 4,750,672	\$ 1,093,055	\$ 1,588,151	\$ 10,603,950	\$ 1,712,657	\$ 56,174,242	\$ 784,671	\$ 115,450	\$ 88,258,547
B) Amortization of UAL													
i) Normal Cost	\$ 5,094,023	\$ 1,093,627	\$ 2,694,296	\$ 2,553,753	\$ 4,750,672	\$ 1,093,055	\$ 1,588,151	\$ 10,603,950	\$ 1,712,657	\$ 56,174,242	\$ 784,671	\$ 115,450	\$ 88,258,547
ii) Amortization of UAL	9,640,779	1,838,932	4,142,529	1,855,383	5,118,476	1,411,179	2,716,507	9,416,066	1,413,449	59,661,053	953,197	275,920	98,443,470
iii) Total	\$ 14,734,802	\$ 2,932,559	\$ 6,836,825	\$ 4,409,136	\$ 9,869,148	\$ 2,504,234	\$ 4,304,658	\$ 20,020,016	\$ 3,126,106	\$ 115,835,295	\$ 1,737,868	\$ 391,370	\$ 186,702,017
VI) Annual OPEB Cost													
A) ARC													
i) Normal Cost	\$ 5,094,023	\$ 1,093,627	\$ 2,694,296	\$ 2,553,753	\$ 4,750,672	\$ 1,093,055	\$ 1,588,151	\$ 10,603,950	\$ 1,712,657	\$ 56,174,242	\$ 784,671	\$ 115,450	\$ 88,258,547
B) Interest on Net OPEB Obligation													
i) Normal Cost	563,719	153,643	428,939	342,921	719,144	152,700	238,341	1,580,430	243,793	7,373,871	119,804	1,248	11,918,553
C) Adjustment to ARC													
i) Normal Cost	(508,588)	(138,617)	(386,989)	(309,383)	(648,812)	(137,766)	(215,031)	(1,425,864)	(219,950)	(6,652,707)	(108,087)	(1,126)	(10,752,920)
D) Total	\$ 14,789,933	\$ 2,947,585	\$ 6,878,775	\$ 4,442,674	\$ 9,939,480	\$ 2,519,168	\$ 4,327,968	\$ 20,174,582	\$ 3,149,949	\$ 116,556,459	\$ 1,749,585	\$ 391,492	\$ 187,867,650
E) Percentage of Payroll	25.9%	35.0%	43.1%	45.2%	73.0%	33.5%	37.6%	61.5%	35.8%	35.2%	17.9%	47.1%	37.0%
VIII) Expected Employer Contributions ⁶													
A) Implicit Subsidy													
i) Normal Cost	\$ 2,259,930	\$ 548,337	\$ 765,600	\$ 197,142	\$ 655,829	\$ 262,100	\$ 507,555	\$ 774,241	\$ 187,196	\$ 11,689,896	\$ 167,874	\$ 39,231	\$ 18,054,931
B) Explicit Subsidy													
i) Normal Cost	5,373,456	983,702	1,802,631	354,857	1,603,953	584,890	1,094,274	1,785,924	532,661	28,147,319	369,245	391,997	43,024,909
C) Total	\$ 7,633,386	\$ 1,532,039	\$ 2,568,231	\$ 551,999	\$ 2,259,782	\$ 846,990	\$ 1,601,829	\$ 2,560,165	\$ 719,857	\$ 39,837,215	\$ 537,119	\$ 431,228	\$ 61,079,840
D) Percentage of Payroll	13.4%	18.2%	16.1%	5.6%	16.6%	11.3%	13.9%	7.8%	8.2%	12.0%	5.5%	51.9%	12.0%
IX) Expected Retiree Contributions	1,508,742	406,058	379,238	137,801	247,387	188,461	302,077	379,260	9,835	7,422,360	93,616	14,277	11,089,112
X) Payroll	\$ 56,996,043	\$ 8,419,773	\$ 15,961,540	\$ 9,819,334	\$ 13,615,187	\$ 7,520,225	\$ 11,516,949	\$ 32,792,133	\$ 8,804,382	\$ 331,310,601	\$ 9,752,321	\$ 830,638	\$ 507,339,126
XI) Covered Member Counts													
A) Active Employees													
i) Normal Cost	648	148	492	413	793	172	260	1,779	314	5,847	150	21	11,037
B) Retired and Disabled Participants ⁴													
i) Normal Cost	738	175	311	76	292	98	174	330	61	3,812	56	13	6,136
C) Total	1,386	323	803	489	1,085	270	434	2,109	375	9,659	206	34	17,173

¹ Plus an additional age or service-based component.

² Includes approximately 500 participants that have life insurance only.

³ Active employees eligible for future retiree healthcare.

⁴ Includes Surviving Spouses.

⁵ Allocated based on actual Net OPEB Obligation as of June 30, 2009, and expected employer contributions.

⁶ Expected employer contributions to finance current retiree healthcare and life insurance claims assuming pay-as-you-go funding.

**Milwaukee Public Schools
Retiree Healthcare and Life Insurance Programs
GASB 45 Projected Actuarial Valuation Results as of July 1, 2010, Based on Actuarial Valuation at July 1, 2009
Entry Age Normal Cost Method**

Discount Rate 4.55%
Salary Scale ¹ 3.00%
Ultimate Trend 4.50%
Wage Inflation 3.00%
Amortization: 30-year open, level percentage of payroll

	Board/ Cabinet/ ASC	Building Trades	Local 1053	Local 150 Building Service	Local 150 Food Service	Local 1616	Local 950	MTEA – Educational Assistants	MTEA – Sub Teachers	MTEA Teachers	PAMPS	Others ²	Total
Retiree Healthcare Program													
I) Actuarial Liability													
A) Health Insurance													
i) Active Employees ³	\$ 103,228,930	\$ 27,326,840	\$ 68,286,193	\$ 37,395,377	\$ 96,366,520	\$ 21,710,087	\$ 42,767,503	\$ 197,514,234	\$ 25,065,535	\$ 849,453,885	\$ 16,520,675	\$ 2,599,523	\$ 1,488,235,302
ii) Retired and Disabled Participants ⁴	128,913,898	17,642,961	35,430,361	11,588,919	35,855,544	13,653,826	24,920,522	48,098,823	11,137,305	643,900,918	7,215,524	1,843,428	980,202,029
iii) Total	\$ 232,142,828	\$ 44,969,801	\$ 103,716,554	\$ 48,984,296	\$ 132,222,064	\$ 35,363,913	\$ 67,688,025	\$ 245,613,057	\$ 36,202,840	\$ 1,493,354,803	\$ 23,736,199	\$ 4,442,951	\$ 2,468,437,332
B) Life Insurance													
i) Active Employees	\$ 3,423,918	\$ 666,569	\$ 861,506	\$ 436,508	\$ 656,881	\$ 408,420	\$ 777,579	\$ 1,449,437	\$ 363,902	\$ 16,372,077	\$ 436,995	\$ 46,862	\$ 25,900,654
ii) Retired and Disabled Participants	7,376,578	750,894	1,056,389	(119,498)	29,822	420,399	706,787	978,873	447,343	26,477,651	356,790	2,214,674	40,696,702
iii) Total	\$ 10,800,496	\$ 1,417,463	\$ 1,917,895	\$ 317,010	\$ 686,703	\$ 828,819	\$ 1,484,366	\$ 2,428,310	\$ 811,245	\$ 42,849,728	\$ 793,785	\$ 2,261,536	\$ 66,597,356
C) Total Liabilities	\$ 242,943,324	\$ 46,387,264	\$ 105,634,449	\$ 49,301,306	\$ 132,908,767	\$ 36,192,732	\$ 69,172,391	\$ 248,041,367	\$ 37,014,085	\$ 1,536,204,531	\$ 24,529,984	\$ 6,704,487	\$ 2,535,034,687
II) Assets													
-													
III) Unfunded Actuarial Liability (UAL)	242,943,324	46,387,264	105,634,449	49,301,306	132,908,767	36,192,732	69,172,391	248,041,367	37,014,085	1,536,204,531	24,529,984	6,704,487	2,535,034,687
IV) Net OPEB Obligation (boy) ⁵	19,545,982	4,792,317	13,737,773	11,427,394	23,485,060	5,028,221	7,964,401	52,349,137	7,788,176	238,782,338	3,845,514	(12,302)	388,734,011
V) Normal Cost													
A) Health Insurance													
	\$ 5,061,489	\$ 1,100,902	\$ 2,738,338	\$ 2,628,240	\$ 4,889,796	\$ 1,102,180	\$ 1,603,705	\$ 10,821,844	\$ 1,712,493	\$ 56,756,926	\$ 786,142	\$ 115,661	\$ 89,317,718
B) Life Insurance	185,355	25,534	36,786	2,126	3,396	23,666	32,091	100,224	51,543	1,102,543	22,069	3,253	1,588,585
C) Total	\$ 5,246,844	\$ 1,126,436	\$ 2,775,125	\$ 2,630,366	\$ 4,893,192	\$ 1,125,847	\$ 1,635,796	\$ 10,922,069	\$ 1,764,037	\$ 57,859,469	\$ 808,211	\$ 118,914	\$ 90,906,306
VI) Annual Required Contribution (ARC)													
A) Normal Cost													
	\$ 5,246,844	\$ 1,126,436	\$ 2,775,125	\$ 2,630,366	\$ 4,893,192	\$ 1,125,847	\$ 1,635,796	\$ 10,922,069	\$ 1,764,037	\$ 57,859,469	\$ 808,211	\$ 118,914	\$ 90,906,306
B) Amortization of UAL	9,972,849	1,904,202	4,336,305	2,023,824	5,455,919	1,485,715	2,839,534	10,182,124	1,519,432	63,061,354	1,006,958	275,220	104,063,436
C) Total	\$ 15,219,693	\$ 3,030,638	\$ 7,111,430	\$ 4,654,190	\$ 10,349,111	\$ 2,611,562	\$ 4,475,330	\$ 21,104,193	\$ 3,283,469	\$ 120,920,823	\$ 1,815,169	\$ 394,134	\$ 194,969,742
VII) Annual OPEB Cost													
A) ARC													
	\$ 15,219,693	\$ 3,030,638	\$ 7,111,430	\$ 4,654,190	\$ 10,349,111	\$ 2,611,562	\$ 4,475,330	\$ 21,104,193	\$ 3,283,469	\$ 120,920,823	\$ 1,815,169	\$ 394,134	\$ 194,969,742
B) Interest on Net OPEB Obligation	889,342	218,050	625,069	519,946	1,068,570	228,784	362,380	2,381,886	354,362	10,864,596	174,971	(560)	17,687,396
C) Adjustment to ARC	(802,365)	(196,725)	(563,937)	(469,096)	(964,064)	(206,409)	(326,939)	(2,148,937)	(319,705)	(9,802,040)	(157,859)	505	(15,957,571)
D) Total	\$ 15,306,670	\$ 3,051,963	\$ 7,172,562	\$ 4,705,040	\$ 10,453,617	\$ 2,633,937	\$ 4,510,771	\$ 21,337,142	\$ 3,318,126	\$ 121,983,379	\$ 1,832,281	\$ 394,079	\$ 196,699,567
E) Percentage of Payroll	26.1%	35.2%	43.6%	46.5%	74.5%	34.0%	38.0%	63.2%	36.6%	35.7%	18.2%	46.1%	37.6%
VIII) Expected Employer Contributions ⁶													
A) Implicit Subsidy													
	\$ 2,716,757	\$ 595,746	\$ 881,838	\$ 240,751	\$ 799,757	\$ 308,736	\$ 576,125	\$ 1,014,789	\$ 254,084	\$ 13,479,169	\$ 189,262	\$ 43,321	\$ 21,100,335
B) Explicit Subsidy	6,562,884	1,071,872	2,050,178	483,365	1,999,018	699,186	1,244,317	2,447,082	707,426	32,617,072	418,248	377,841	50,678,489
C) Additional Contributions	549,777	105,449	168,377	43,655	153,493	60,695	107,785	193,998	48,500	2,721,532	35,447	22,048	4,210,756
D) Total	\$ 9,829,418	\$ 1,773,067	\$ 3,100,393	\$ 767,771	\$ 2,952,268	\$ 1,068,617	\$ 1,928,227	\$ 3,655,869	\$ 1,010,010	\$ 48,817,773	\$ 642,957	\$ 443,210	\$ 75,989,580
E) Percentage of Payroll	16.7%	20.4%	18.9%	7.6%	21.1%	13.8%	16.3%	10.8%	11.1%	14.3%	6.4%	51.8%	14.5%
IX) Expected Retiree Contributions	1,715,904	441,369	435,528	148,985	271,078	205,983	335,255	418,091	8,483	8,334,391	101,425	19,802	12,436,294
X) Payroll	\$ 58,705,924	\$ 8,672,366	\$ 16,440,387	\$ 10,113,914	\$ 14,023,643	\$ 7,745,832	\$ 11,862,458	\$ 33,775,897	\$ 9,068,513	\$ 341,249,920	\$ 10,044,890	\$ 855,557	\$ 522,559,301

¹ Plus an additional age or service-based component.

² Includes approximately 500 participants that have life insurance only.

³ Active employees eligible for future retiree healthcare.

⁴ Includes Surviving Spouses.

⁵ Allocated based on expected Net OPEB Obligation as of June 30, 2010, from the valuation results as of July 1, 2009.

⁶ Expected employer contributions to finance current retiree healthcare and life insurance claims assuming pay-as-you-go funding.

SECTION C

GASB ACCOUNTING

This information is presented in draft form for review by the Employer's auditor. Please let us know if there are any changes so that we may maintain consistency with the Employer's financial statements.

**Milwaukee Public Schools
 Retiree Healthcare and Life Insurance Programs
 GASB 45 Actuarial Valuation Results as of July 1, 2009**

Development of the Net OPEB Obligation for the Fiscal Year Ending June 30, 2010

Annual Required Contribution	\$ 186,702,017
Interest on Net OPEB Obligation	11,918,553
Adjustment to Annual Required Contribution ²	<u>(10,752,920)</u>
Annual OPEB Cost	\$ 187,867,650
Expected MPS Contributions ¹	\$ (61,079,840)
Net OPEB Obligation, beginning of year	\$ 261,946,201
Net OPEB Obligation, end of year ¹	\$ 388,734,011

¹Amounts will be updated for fiscal year 2010 when actual employer contributions are known.

²The Adjustment to the Annual Required Contribution equals the Net OPEB Obligation at the beginning of the fiscal year divided by the factor used to amortize the unfunded actuarial liability at the beginning of the fiscal year. The adjustment is deducted from the Annual Required Contribution if the Net OPEB Obligation is positive at the beginning of the fiscal year.

**Milwaukee Public Schools
 Retiree Healthcare and Life Insurance Programs
 GASB 45 Actuarial Valuation Results as of July 1, 2009**

Schedule of Funding Progress:

Actuarial Valuation Date	GASB Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Payroll [(b - a)/c]
July 1, 2007	\$ 0	\$ 2,222,673,800	\$ 2,222,673,800	0.0 %	\$ 501,134,000	443.5%
July 1, 2009	0	2,398,129,645	2,398,129,645	0.0 %	507,339,126	472.7%

Net OPEB Obligation:

Year Ended	Annual OPEB Cost (AOC)	Employer Contributions¹	% of AOC Contributed	Net OPEB Obligation¹	Annual Required Contribution (ARC)	% of ARC
June 30, 2008	\$ 175,418,900	\$ 44,383,435	25.3%	\$ 131,035,465	\$ 175,418,900	25.3%
June 30, 2009	190,432,565	59,521,830	31.3%	261,946,200	189,880,613	31.3%
June 30, 2010	187,867,650	61,079,840	32.5%	388,734,010	186,702,017	32.7%

¹Amounts will be updated for fiscal year 2010 when actual employer contributions are known.

**Milwaukee Public Schools
 Retiree Healthcare and Life Insurance Programs
 GASB 45 Projected Actuarial Valuation Results as of July 1, 2009**

GASB No. 45 Summary of Actuarial Assumptions and Methods

The GASB 45 financial disclosure information for the fiscal year end 2010 was based on the following assumptions and methods.

<i>Valuation Date</i>	July 1, 2009
<i>Actuarial Cost Method</i>	Entry Age Normal
<i>Actuarial Value of Assets</i>	No Assets as of July 1, 2009. The plan sponsor intends to contribute 105 percent of actual retiree healthcare claims to an IRC Section 115 trust earmarked for the payment of retiree healthcare benefits beginning in fiscal year 2011.
<i>Amortization Method</i>	Level Percent Open
<i>Remaining Amortization Period</i>	30 years
<i>Actuarial Assumptions</i>	
<i>Investment Rate of Return</i>	4.55% per year
<i>Wage Inflation</i>	3.0% per year
<i>Healthcare Trend</i>	9.0% per year graded down to 4.5% per year ultimate trend in 0.5% increments
	<i>Medicare Part B:</i> 14.63% in 2010 and then 7.0% per year graded down to 4.5% per year ultimate trend in 0.5% increments

SECTION D

SENSITIVITY PROJECTIONS

SENSITIVITY PROJECTIONS

One of the key objectives of GASB 45 is to accrue an expense, for the value of future retiree healthcare and life insurance benefits, during the working lifetime of an active employee. This objective requires a systematic means of spreading the present value of benefits over the person's working career. Actuarial cost methods are specifically designed to meet this objective.

It is important to note that GASB 45 does not require that a plan sponsor pre-fund retiree healthcare benefits during an employee's working career. GASB 45 only requires accruing an expense for retiree healthcare benefits and reporting a balance sheet liability representing the cumulative difference between annual expense and employer contributions. However, sponsors that pre-fund retiree healthcare benefits will experience a significant reduction in the annual expense and balance sheet liability.

The table below compares the annual expense (Annual OPEB Cost) and the balance sheet liability (Net OPEB Obligation) assuming the current funding policy where benefits are discounted at 4.55 percent and on fully funded basis where benefits are discounted at 8.0 percent.

The current funding policy begins prefunding in FY2011 of 5 percent in addition to gross (retiree and employer) pay-as-you-go costs; that is, employer contributions equal claims less member contributions for the current retiree group plus 5 percent of actual claims. Our projections also assume that healthcare trend for future retirees will be fresh-started beginning in the 2011 valuation.

The key results are outlined below (\$ in millions):

Entry Age Normal FYE	Current Funding 4.55% discount		Full Funding 8.00% discount	
	2010	2019	2010	2019
Annual OPEB Cost	\$ 187.8	\$ 356.8	\$ 134.9	\$ 227.6
Annual OPEB Cost (% Pay)	37.0%	53.9%	26.6%	34.4%
Employer Contributions	\$ 61.1	\$ 152.1	\$ 129.9	\$ 221.7
Net OPEB Obligation	\$ 388.7	\$ 1,812.7	\$ 266.9	\$ 316.3
Funded Ratio	0.00%	1.17%	0.00%	25.56%

MPS provides an explicit subsidy that is not indexed for healthcare inflation, once the member retires. However, because premiums for pre-Medicare retiree and active coverage are rated in one pool, MPS is also providing an implicit subsidy after retirement that is indexed for inflation. Consequently, healthcare inflation impacts the implicit subsidy, and the explicit subsidy of future retirees.

Based on the EAN cost method, the annual expense is projected to increase from \$187.8 million in FY2010 to \$356.8 million in FY2019 under the current funding policy (which is mainly pay-as-you-go funding) and from \$134.9 million to \$227.6 million under the full funding policy. The annual employer's contribution is projected to increase from \$61.1 million to \$152.1 million under the current funding policy and from \$129.9 million to \$221.7 million under the full funding policy.

SENSITIVITY PROJECTIONS

KEY OBSERVATIONS

Pre-funding benefits has several key advantages including the use of a higher discount rate which produces lower expense, and more stable costs. However, pre-funding would require additional near-term financing sources.

SENSITIVITY PROJECTIONS, CURRENT (MAINLY PAY-AS-YOU-GO FUNDING)

**Milwaukee Public Schools
Retiree Healthcare and Life Insurance Programs
GASB 45 Actuarial Valuation as of July 1, 2009
Entry Age Normal Cost Method**

Discount Rate 4.55%
*Salary Scale*¹ 3.00%
Ultimate Trend 4.50%
Wage Inflation 3.00%

**Ten-year GASB Projection for All Labor Units
(\$ in Millions)**

Amortization: 30-year open, level percentage of payroll

Valuation Date	07/01/09	07/01/10	07/01/11	07/01/12	07/01/13	07/01/14	07/01/15	07/01/16	07/01/17	07/01/18
Retiree Healthcare and Life Insurance Programs										
A) Actuarial Liability	\$ 2,398.1	\$ 2,535.0	\$ 2,763.4	\$ 3,006.7	\$ 3,268.1	\$ 3,549.5	\$ 3,852.4	\$ 4,179.0	\$ 4,531.3	\$ 4,911.3
B) Assets	-	-	4.3	9.4	15.3	21.9	29.4	37.8	47.1	57.5
C) Unfunded Actuarial Liability (UAL)	2,398.1	2,535.0	2,759.1	2,997.3	3,252.8	3,527.5	3,823.0	4,141.2	4,484.2	4,853.8
D) Funded Ratio	0.00%	0.00%	0.16%	0.31%	0.47%	0.62%	0.76%	0.90%	1.04%	1.17%
E) Net OPEB Obligation (eoy)	388.7	509.4	635.9	770.3	914.0	1,067.7	1,232.6	1,409.7	1,599.9	1,812.7
F) Annual Required Contribution (ARC)										
i) Normal Cost	\$ 88.3	\$ 90.9	\$ 96.9	\$ 103.2	\$ 109.9	\$ 117.0	\$ 124.6	\$ 132.7	\$ 141.3	\$ 150.5
ii) Amortization of UAL	98.4	104.1	113.3	123.0	133.5	144.8	156.9	170.0	184.1	199.2
iii) Total	\$ 186.7	\$ 195.0	\$ 210.2	\$ 226.2	\$ 243.4	\$ 261.8	\$ 281.5	\$ 302.7	\$ 325.4	\$ 349.7
G) Annual OPEB Cost										
i) ARC	\$ 186.7	\$ 195.0	\$ 210.2	\$ 226.2	\$ 243.4	\$ 261.8	\$ 281.5	\$ 302.7	\$ 325.4	\$ 349.7
ii) Interest on Net OPEB Obligation	11.9	17.7	23.2	28.9	35.0	41.6	48.6	56.1	64.1	72.8
iii) Adjustment to ARC	(10.8)	(16.0)	(20.9)	(26.1)	(31.6)	(37.5)	(43.8)	(50.6)	(57.9)	(65.7)
iv) Total	\$ 187.8	\$ 196.7	\$ 212.5	\$ 229.0	\$ 246.8	\$ 265.9	\$ 286.3	\$ 308.2	\$ 331.6	\$ 356.8
v) Percentage of Payroll	37.0%	37.6%	39.5%	41.3%	43.2%	45.2%	47.3%	49.4%	51.6%	53.9%
H) Expected Contributions										
i) Employer Benefit Payments	\$ 61.1	\$ 71.8	\$ 81.3	\$ 89.4	\$ 97.5	\$ 106.1	\$ 114.8	\$ 124.0	\$ 133.8	\$ 144.0
ii) Employer Additional Contributions	-	4.2	4.7	5.2	5.6	6.1	6.6	7.1	7.6	8.1
iii) Total Employer Contributions	\$ 61.1	\$ 76.0	\$ 86.0	\$ 94.6	\$ 103.1	\$ 112.2	\$ 121.4	\$ 131.1	\$ 141.4	\$ 152.1
iv) Percentage of Payroll	12.0%	14.5%	16.0%	17.1%	18.1%	19.1%	20.0%	21.0%	22.0%	23.0%
v) Retiree Contributions	11.1	12.4	13.6	14.6	15.4	16.1	16.9	17.4	17.8	18.1
vi) Total Contributions	\$ 72.2	\$ 88.4	\$ 99.6	\$ 109.2	\$ 118.5	\$ 128.3	\$ 138.3	\$ 148.5	\$ 159.2	\$ 170.2
I) Payroll	\$ 507.3	\$ 522.5	\$ 538.2	\$ 554.3	\$ 570.9	\$ 588.0	\$ 605.6	\$ 623.8	\$ 642.5	\$ 661.8
J) Active Member Counts	11,037	11,037	11,037	11,037	11,037	11,037	11,037	11,037	11,037	11,037
K) Retired Member Counts (includes survivors and disabled retirees)	6,136	6,613	6,862	7,057	7,233	7,406	7,566	7,722	7,883	8,032
L) Ratio of Actives to Retirees	1.80	1.67	1.61	1.56	1.53	1.49	1.46	1.43	1.40	1.37

¹ Plus an additional age or service-based component.

SENSITIVITY PROJECTIONS, FULL FUNDING

**Milwaukee Public Schools
Retiree Healthcare and Life Insurance Programs
GASB 45 Actuarial Valuation as of July 1, 2009
Entry Age Normal Cost Method**

Discount Rate 8.00%
*Salary Scale*¹ 3.00%
Ultimate Trend 4.50%
Wage Inflation 3.00%

**Ten-year GASB Projection for All Labor Units
(\$ in Millions)**

Amortization: 30-year open, level percentage of payroll

Valuation Date	<u>07/01/09</u>	<u>07/01/10</u>	<u>07/01/11</u>	<u>07/01/12</u>	<u>07/01/13</u>	<u>07/01/14</u>	<u>07/01/15</u>	<u>07/01/16</u>	<u>07/01/17</u>	<u>07/01/18</u>
<i>Retiree Healthcare and Life Insurance Programs</i>										
A) Actuarial Liability	\$ 1,515.2	\$ 1,668.3	\$ 1,830.6	\$ 2,004.5	\$ 2,193.2	\$ 2,398.6	\$ 2,622.3	\$ 2,866.5	\$ 3,133.5	\$ 3,425.5
B) Assets	-	71.5	145.3	223.5	308.5	401.5	503.4	615.7	739.3	875.7
C) Unfunded Actuarial Liability (UAL)	1,515.2	1,596.8	1,685.2	1,781.0	1,884.7	1,997.1	2,118.8	2,250.9	2,394.2	2,549.8
D) Funded Ratio	0.00%	4.29%	7.94%	11.15%	14.07%	16.74%	19.20%	21.48%	23.59%	25.56%
E) Net OPEB Obligation (eoy)	266.9	272.0	277.2	282.5	287.9	293.3	298.9	304.6	310.4	316.3
F) Annual Required Contribution (ARC)										
i) Normal Cost	\$ 37.5	\$ 39.9	\$ 42.5	\$ 45.3	\$ 48.2	\$ 51.4	\$ 54.7	\$ 58.3	\$ 62.1	\$ 66.1
ii) Amortization of UAL	<u>92.4</u>	<u>97.4</u>	<u>102.8</u>	<u>108.7</u>	<u>115.0</u>	<u>121.9</u>	<u>129.3</u>	<u>137.3</u>	<u>146.1</u>	<u>155.6</u>
iii) Total	\$ 129.9	\$ 137.3	\$ 145.3	\$ 154.0	\$ 163.2	\$ 173.3	\$ 184.0	\$ 195.6	\$ 208.2	\$ 221.7
G) Annual OPEB Cost										
i) ARC	\$ 129.9	\$ 137.3	\$ 145.3	\$ 154.0	\$ 163.2	\$ 173.3	\$ 184.0	\$ 195.6	\$ 208.2	\$ 221.7
ii) Interest on Net OPEB Obligation	21.0	21.4	21.8	22.2	22.6	23.0	23.5	23.9	24.4	24.8
iii) Adjustment to ARC	<u>(16.0)</u>	<u>(16.3)</u>	<u>(16.6)</u>	<u>(16.9)</u>	<u>(17.2)</u>	<u>(17.6)</u>	<u>(17.9)</u>	<u>(18.2)</u>	<u>(18.6)</u>	<u>(18.9)</u>
iv) Total	\$ 134.9	\$ 142.4	\$ 150.5	\$ 159.3	\$ 168.6	\$ 178.7	\$ 189.6	\$ 201.3	\$ 214.0	\$ 227.6
v) Percentage of Payroll	26.6%	27.3%	28.0%	28.7%	29.5%	30.4%	31.3%	32.3%	33.3%	34.4%
H) Expected Contributions										
i) Employer Benefit Payments	\$ 61.1	\$ 71.8	\$ 81.3	\$ 89.4	\$ 97.5	\$ 106.1	\$ 114.8	\$ 124.0	\$ 133.8	\$ 144.0
ii) Employer Additional Contributions	<u>68.8</u>	<u>65.5</u>	<u>64.0</u>	<u>64.6</u>	<u>65.7</u>	<u>67.2</u>	<u>69.2</u>	<u>71.6</u>	<u>74.4</u>	<u>77.7</u>
iii) Total Employer Contributions	\$ 129.9	\$ 137.3	\$ 145.3	\$ 154.0	\$ 163.2	\$ 173.3	\$ 184.0	\$ 195.6	\$ 208.2	\$ 221.7
iv) Percentage of Payroll	25.6%	26.3%	27.0%	27.8%	28.6%	29.5%	30.4%	31.4%	32.4%	33.5%
v) Retiree Contributions	11.1	12.4	13.6	14.6	15.4	16.1	16.9	17.4	17.8	18.1
vi) Total Contributions	\$ 141.0	\$ 149.7	\$ 158.9	\$ 168.6	\$ 178.6	\$ 189.4	\$ 200.9	\$ 213.0	\$ 226.0	\$ 239.8
I) Payroll	\$ 507.3	\$ 522.5	\$ 538.2	\$ 554.3	\$ 570.9	\$ 588.0	\$ 605.6	\$ 623.8	\$ 642.5	\$ 661.8
J) Active Member Counts	11,037	11,037	11,037	11,037	11,037	11,037	11,037	11,037	11,037	11,037
K) Retired Member Counts (includes survivors and disabled retirees)	6,136	6,613	6,862	7,057	7,233	7,406	7,566	7,722	7,883	8,032
L) Ratio of Actives to Retirees	1.80	1.67	1.61	1.56	1.53	1.49	1.46	1.43	1.40	1.37

¹ Plus an additional age or service-based component.

SECTION E

PLAN PROVISIONS

PLAN PROVISIONS

PLAN MEMBERS

Milwaukee Public School (hereinafter referred to as MPS or the Board) employees can qualify to continue healthcare benefits as a retiree for themselves and their eligible dependents if they satisfy the eligibility requirements and were enrolled in an MPS health plan as an active subscriber at the time of retirement.

Board members can qualify to continue healthcare benefits for themselves and their eligible dependents upon leaving the Board provided they are at least age 55 years of age and have served a minimum of eight full years on the Board. This provision terminated for all Board members on and after the 2001 Board organizational meeting except for previous Board members who already qualified for this benefit and Board members who were in office as of January 25, 2000, who met the eligibility requirements as of September 1, 1999.

ELIGIBLE SERVICE

Eligible Service includes service with Milwaukee Public Schools as an active employee and service accrued while on leave, paid or unpaid, in accordance with collective bargaining agreements. With regard to Local 1053, only regular full time service with Milwaukee Public Schools is included for Eligible Service. In addition, service while covered under the City of Milwaukee Employees' Retirement System (ERS) counts as Eligible Service for the following groups in accordance with collective bargaining agreements:

- ASC – represented and exempt employees
- Cabinet Members
- Local 1053 – Secretaries including exempts
- Local 1616
- Local 950 – Building Engineer
- Building Trades

NORMAL RETIREMENT

Eligibility conditions: Age 55 and 15 years of Eligible Service ¹

Benefit: On a self-paid basis, continuation in an MPS health plan in single or family coverage status that the employee was enrolled in at time of retirement. Employees who satisfy the eligibility requirements at time of retirement may receive a Board-paid subsidy in accordance with collective bargaining agreements and Board policy.

DUTY DISABILITY RETIREMENT ²

Eligibility Conditions: An MPS employee, who retires on duty-incurred disability pension due to a compensable workers compensation injury or illness, may continue in an MPS health plan. No age or service requirements apply.

¹ Board members have different eligibility requirements as noted above.

² Does not apply to Local 150 Food Service, MTEA Substitute Teachers and Board Members.

PLAN PROVISIONS (CONTINUED)

Benefit: Coverage is Board-paid for five years after the workers compensation settlement; five years after date of duty incurred disability retirement for Local 150 Building Service Helpers; five years after the date of the workers compensation incident for Local 950, Local 1616 and Building Trades. After the five-year period, the retiree may continue on a self-paid basis.

DISABILITY RETIREMENT (NON-DUTY)

Eligibility Conditions: The following groups are eligible for continuation in an MPS health plan on a self-paid basis as a retiree if they apply and qualify for a disability pension under the Wisconsin Retirement System (WRS) or ERS and have 15 years of Eligible Service:

- ASC represented and exempt employees
- Cabinet Members
- Superintendent
- Director, Board of Governance
- MTEA – Teachers

MEDICARE

Retirees and eligible spouses are required to enroll in Medicare Part B upon attainment of age 65 or when first eligible due to a disability. Plan Members who participated in Social Security while working are also required to enroll in Medicare Part A. The Board provides retiree healthcare benefits that are secondary to Medicare for Medicare eligible retirees and dependents. MPS has applied for the Medicare Part D subsidy as available under the Medicare Modernization Act.

EMPLOYER FUNDING POLICY

MPS finances net retiree claims in excess of retiree contributions and Medicare Part D subsidies directly from its general fund. MPS has also established an IRC Section 115 trust to prefund retiree healthcare benefits and expects to contribute 105 percent of actual retiree healthcare claims beginning in fiscal year 2011. Trust assets are expected to be invested in fixed income securities after a percentage of pay-as-you-go costs for the following month are invested in cash equivalents.

PREMIUM COST SHARING

RETIREES:

An employee with 70 percent or more of the maximum accumulated sick leave at the time of retirement, in accordance with collective bargaining agreements and Board policy, will receive a monthly Board subsidy at the Board's share of the PPO/Indemnity active single plan or family plan premium rate in effect as of the employee's date of retirement. (MTEA-Teachers, Educational Assistants, Accountants/Bookkeepers, ASC represented exempt employees and Cabinet Members who submit a retirement notice by March 1st, and Substitute Teachers and PAMPS who submit a retirement notice by April 1st, will receive the greater of the June 30th or July 1st premium rate as their monthly Board subsidy in accordance with their collective bargaining agreement and Board policy.) Generally, the Board subsidy remains fixed for the lifetime of the retiree while the retiree continues enrollment in an MPS health plan. MPS will reimburse the retiree for the amount of the retiree's Medicare Part B premium in an amount not to exceed the Board subsidy. Employees who meet all

PLAN PROVISIONS (CONTINUED)

other eligibility requirements, but do not meet the 70 percent maximum accumulated eligibility requirement for the Board subsidy, may continue coverage in an MPS health plan as a retiree on a self-paid basis.

Board members who met the eligibility requirements receive a monthly Board subsidy at the Board's share of the PPO/Indemnity active single or family plan premium rate in effect as of the Board member's date of leaving the Board.

SURVIVING SPOUSE COVERAGE

DEATH OF EMPLOYEE IN ACTIVE SERVICE¹

If an MPS employee dies while in active service and has met the eligibility requirements of 15 or more years of Eligible Service:

1. The surviving spouse and eligible dependents can continue health coverage with the Board paying its portion of the Board paid subsidy until the surviving spouse remarries.
2. When the surviving spouse turns age 60, he/she (but not any dependents) will be eligible to continue coverage in a single plan and will be covered as a surviving spouse of an employee who retired that year.
 - The Board subsidy will be the Board's portion of the single premium for the PPO/Indemnity health plan in effect as of the date of the surviving spouse's turning age 60 if the employee had the required 70% of maximum sick leave balance as of the employee's date of death. Thereafter, the surviving spouse is required to pay all future premium increases.
 - If the employee did not have the required 70% of maximum sick leave as of the employee's date of death, continuation in health coverage will be self paid.

DEATH OF EMPLOYEE AFTER RETIREMENT²

If the employee dies after retirement:

- The surviving spouse (but not any dependents) can continue coverage under the MPS retiree health insurance in a single plan until the spouse remarries or is otherwise covered by another group health insurance plan.
- The Board subsidy will be adjusted to the premium rate of a single PPO/Indemnity health plan that was in effect as of the deceased employee's date of retirement.

¹ Does not apply to Local 150 Food Service, MTEA-Substitute Teachers, and Board Members

² Does not apply to MTEA-Substitute Teachers, and Board Members who have not met the eligibility requirements as of September 1, 1999.

PLAN PROVISIONS (CONTINUED)

PREMIUM RATES AS OF JULY 1, 2009

	PPO Plan ¹				
		Single + Spouse/Dependent	Single + Spouse/Dependent	Family w/o Medicare	Family w/Medicare
	Single	1 with Medicare	Both with Medicare		
Active	898.13			1,985.46	
Retiree (Non-Medicare)	893.17	1,272.83		1,973.43	1,459.92 (1 w/Med.)
Retiree (Medicare)	379.66	1,272.83	759.32		946.40 (2 w/Med.)
	EPO Plan ²				
	Single + Spouse/Dependent	Single + Spouse/Dependent	Family w/o Medicare	Family w/Medicare	
Single	1 with Medicare	Both with Medicare			
Active			1,370.55		
Retiree (Non-Medicare)	524.55	935.89	1,373.09	1,259.87	(1 w/Med.)
Retiree (Medicare)	411.33	935.89	822.67	1,146.66	(2 w/Med.)

¹Premium for active members in the PPO plan includes vision coverage.

²Premium for active and retired members in the EPO plan includes vision coverage.

Monthly pre-65 retiree life insurance premium rates are \$0.35 per 1,000 of coverage.

ACTIVE EMPLOYEE PREMIUM SHARE

Currently there is no cost to most active employees; Cabinet members pay 5% of the premium and Board members pay any difference between the plan they have selected and the lowest cost plan. Effective with the union contract settlements (2005 - 2006), there is a conditional employee premium contribution of 2.5% for those enrolled in the PPO/Indemnity Plan if the premium for this plan increases greater than 17%. To date, this conditional premium share has not been triggered. If the conditional premium share is triggered, future retired members that receive a Board-paid subsidy would receive a subsidy amount equal to the PPO/Indemnity Plan premium rate at the time of retirement less the 2.5% conditional premium amount.

LIFE INSURANCE BENEFIT

The Board provides group life insurance coverage to eligible retirees equal to the annual earnings at retirement to the next even thousand dollars. Coverage is equal to the previous year's annual earnings for 150 Food Services, BSH, MTEA Substitute Teachers, and part time (20 hours per week) 1616 Social Work Aides, Local 950, 1616 Seasonal Laborers and Building Trades. The life insurance face amount is reduced by 25 percent of the original amount each March 1 following the attainment of age 65, 66 and 67. A life insurance amount of 25 percent of the original life insurance benefit is payable if death occurs after March 1 following the retiree's 67th birthday. At the 25 percent reduction the Board will pay a maximum coverage of \$15,000 for 950 and Building Trades, \$20,000 for 1053 and 1616, and \$25,000 for PAMPS. The Board will pay for a maximum of \$10,000 of coverage for Local 150 Food Services and BSH in retirement.

VISION BENEFIT

Retirees and dependents enrolled in the EPO plan receive vision coverage.

DENTAL BENEFIT

Retirees and dependents are not eligible for dental coverage; however, retirees are eligible for self-pay COBRA coverage for up to 18 months.

PLAN PROVISIONS (CONTINUED)
AETNA MPS PPO/INDEMNITY NON-MEDICARE ELIGIBLE

Plan Feature	In Network	Out of Network												
Annual Deductible	\$ 100 per person \$ 300 per family													
Annual Coinsurance Limit (Excludes Annual Deductible)	\$ 200 per person \$ 600 per family	\$ 500 per person \$ 1,500 per family												
<u>Covered Services</u>	<u>Coinsurance</u>	<u>Coinsurance</u>												
-Physicians Visits	100% after \$10 Copay	80%*												
-Emergency Room • Emergency Care • Non-Emergency Care	100% after \$50 Copay 50% after deductible	100% after \$50 Copay 50% after deductible												
-Inpatient Services	90%*	80%*												
-Outpatient Services	90%*	80%*												
Prescription Drug Copays	<table style="width: 100%; border: none;"> <tr> <td style="text-align: center;"><u>Retail</u></td> <td style="text-align: center;"><u>Mail Order**</u></td> </tr> <tr> <td style="text-align: center;">Generic 10%</td> <td style="text-align: center;">\$10</td> </tr> <tr> <td style="text-align: center;">Brand formulary 10%</td> <td style="text-align: center;">\$20</td> </tr> </table>	<u>Retail</u>	<u>Mail Order**</u>	Generic 10%	\$10	Brand formulary 10%	\$20	<table style="width: 100%; border: none;"> <tr> <td style="text-align: center;"><u>Retail</u></td> <td style="text-align: center;"><u>Mail Order</u></td> </tr> <tr> <td style="text-align: center;">Generic 20%</td> <td style="text-align: center;">N/A</td> </tr> <tr> <td style="text-align: center;">Brand formulary 20%</td> <td style="text-align: center;">N/A</td> </tr> </table>	<u>Retail</u>	<u>Mail Order</u>	Generic 20%	N/A	Brand formulary 20%	N/A
<u>Retail</u>	<u>Mail Order**</u>													
Generic 10%	\$10													
Brand formulary 10%	\$20													
<u>Retail</u>	<u>Mail Order</u>													
Generic 20%	N/A													
Brand formulary 20%	N/A													
Maximum Lifetime Benefit	\$ 2,882,000 per covered individual in calendar year 2010	\$ 2,882,000 per covered individual in calendar year 2010												

*Until coinsurance limit is met; 100% thereafter.

**90-day supply

PLAN PROVISIONS (CONTINUED)
AETNA MPS PPO/INDEMNITY MEDICARE-ELIGIBLE

Plan Feature	In Network/Out of Network	
Annual Deductible	\$ 100 per person \$ 300 per family	
Annual Coinsurance Limit (Excludes Annual Deductible)	\$ 500 per person \$ 1,500 per family	
<u>Covered Services</u>	<u>Coinsurance</u>	
-Physicians Visits	80%*	
-Emergency Room <ul style="list-style-type: none"> • Emergency Care • Non-Emergency Care 	100% after \$50 Copay 50% after deductible	
-Inpatient Services	80%*	
-Outpatient Services	80%*	
Prescription Drug Copays	<u>Retail***</u>	<u>Mail Order**</u>
	Generic 10%	\$10
	Brand formulary 10%	\$20
Maximum Lifetime Benefit	\$ 2,882,000 per covered individual in calendar year 2010	

**Until coinsurance limit is met; 100% thereafter (subject to Medicare coordination).*

***90-day supply through Medco only.*

****20% at pharmacies not participating in Medco.*

PLAN PROVISIONS (CONTINUED)
UNITED HEALTHCARE MPS CHOICE EPO

Plan Feature	In Network Only	
Annual Deductible	None	
Annual Coinsurance Limit (Excludes Annual Deductible)	\$ 150 per person \$ 450 per family	
<u>Covered Services</u>	<u>Coinsurance</u>	
-Physicians Visits	100% after \$10 Copay	
-Emergency Room • Emergency Care • Non-Emergency Care	100% after \$50 Copay 50%	
-Inpatient Services	90%*	
-Outpatient Services	90%*	
Prescription Drug Copays	<u>Retail</u>	<u>Mail Order**</u>
	Generic 10%	\$10
	Brand formulary 10%	\$20
Maximum Lifetime Benefit	\$ 2,882,000 per covered individual in calendar year 2010	

**Until coinsurance limit is met; 100% thereafter.*

***90-day supply*

LIFE INSURANCE

Eligible Groups	Eligibility for Board-paid benefit.	Eligibility for self-paid benefit.
ASC-represented Employees Cabinet Members	30 years & age 55, fully Board-paid.	15 years & age 55, self-paid to age 65. Fully Board-paid after 65. Fully Board-paid at age 50 for Administrators on disability pension.
Building Trades Building Engineers (Local 950)	N/A	15 years & age 55, self-paid to age 65 & Board-paid after 65 if hired prior to 1/1/87. Maximum of \$15,000 Board-paid at 25% reduction. If hired after 1/1/87, self-paid until death.
Secretaries (Local 1053)	30 years & age 55, fully Board-paid.	15 years & age 55, self-paid to age 65 & Board-paid after 65 if hired prior to 1/1/87. Maximum of \$20,000 Board-paid at 25% reduction. If hired after 1/1/87, self-paid until death.
Building Service Helpers (Local 150) Food Service Workers (Local 150)	N/A	15 years & age 55, self-paid to age 65; after age 65 Board-paid life insurance up to a maximum of \$10,000, subject to Terms & Conditions of MPS Group Life Plan, if hired prior to 7/1/86. *Not eligible for group coverage if hired after 7/1/86.
Local 1616	30 years & age 55, fully Board-paid.	15 years & age 55, self-paid to age 65 & Board-paid after 65 if hired prior to 1/1/87. Maximum of \$20,000 Board-paid at 25% reduction. If hired after 1/1/87, self-paid until death.
MTEA – Teachers MTEA-Substitute Teachers	30 years & age 55, Board-paid to \$50,000. Must self pay any amount over \$50,000. Fully Board-paid after 65.	15 years & age 55, self-paid to age 65. Fully Board-paid after 65.
MTEA – Accountants and Bookkeepers	30 years & age 55, Board-paid to \$50,000. Must self pay an annual premium of \$0.60/1,000 for the portion of coverage in excess of \$50,000. Fully Board-paid after 65.	15 years & age 60, self-paid to age 65. Fully Board-paid after 65.
MTEA – Educational Assistants	30 years & age 55, Board-paid to \$19,000. Must self pay an annual premium of \$0.60/1,000 for the portion of coverage in excess of \$19,000. Fully Board-paid after 65.	15 years & age 55, self-paid to age 65. Fully Board-paid after 65.
PAMPS – School Psychologists	30 years & age 55, fully Board-paid.	15 years & age 55, self-paid to age 65. Fully Board-paid after 65. Maximum of \$25,000 Board-paid at 25% reduction.

**Years of service as defined in collective bargaining agreements and Board policy.*

SECTION F

ACTUARIAL METHODS AND ASSUMPTIONS

ACTUARIAL METHODS AND ASSUMPTIONS

Development of Per Capita Claim Costs

The development of per capita claim costs is based on paid claims, expenses and enrollment experience for the period from April 1, 2007, to March 31, 2009, adjusted for claims in excess of the stop loss limits. Costs were trended to the mid-point of the first valuation year. Costs were developed separately for pre-Medicare and post-Medicare coverage under the Aetna PPO/Indemnity plan and under the United Healthcare EPO. Standard morbidity tables were used to develop expected claims costs at each respective postretirement age. We relied on claims, expenses, and enrollment data disclosed in the plan's most recent rating reports prepared by the healthcare actuary.

Cost Method and Expense Calculations for Retiree Healthcare Benefits

The retiree healthcare valuation was based on the entry age normal cost method. Under this method, each participant's projected benefits are assumed to be funded by annual installments, equal to a level percentage of compensation, payable from date of participation to assumed date of retirement. The total normal cost is the sum of the current year's annual installment determined for all active participants. The actuarial accrued liability is the excess value of the present value of future benefits for all participants (both active and retired) over the present value of future normal costs.

Under GASB Statement Nos. 43 and 45, the entry age normal method is an acceptable cost method. The Annual Required Contribution (ARC) equals the normal cost plus the amortization of the unfunded actuarial accrued liability. The amortization cannot exceed 30 years. Our calculations assume a level-percentage-of-pay 30-year open amortization period. The Annual Expense or Annual OPEB Cost equals the ARC plus interest on the Net OPEB Obligation less an adjustment to ARC.

The Net OPEB Obligation or balance sheet liability is equal to the cumulative difference between the Annual OPEB Costs and employer contributions. The OPEB liability at the transition date, July 1, 2007, was set to zero.

Actuarial Assumptions

The actuarial assumptions used in our valuation are outlined on the following pages.

ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED)

Measurement Date	July 1, 2009
Discount Rate	4.55%
Inflation	3.00%
Wage Inflation	3.00%

OPEB Assumptions

<u>Fiscal Year</u>	<u>Healthcare Trend</u>	<u>Medicare Part B Trend</u>
2010	9.00%	14.63% ¹
2011	8.50%	7.00%
2012	8.00%	6.50%
2013	7.50%	6.00%
2014	7.00%	5.50%
2013	6.50%	5.00%
2014	6.00%	4.50%
2015	5.50%	4.50%
2016	5.00%	4.50%
2017+	4.50%	4.50%

¹ Reflects actual increase from \$96.40 in 2009 to \$110.50 in 2010.

**Annual Per Capita Claim Costs for
Fiscal Year End 2010**

<u>Age</u>	<u>EPO</u>		<u>PPO</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
55	\$8,585	\$8,475	\$13,187	\$13,016
60	9,806	9,375	15,061	14,400
64	10,802	10,070	16,591	15,467
65	5,687	5,268	5,385	4,989
70	6,354	5,706	6,018	5,404
75	7,042	6,131	6,669	5,806
80	7,750	6,544	7,340	6,197
85	8,478	6,945	8,029	6,577

The per capita claim costs used in the valuation of future retirees is blended based on 80% of the PPO costs and 20% of the EPO costs.

A 10% load is applied to the pre-Medicare dependent per capita claim cost to account for covered children that are not directly valued. For retirees that cover only dependent children and not a spouse, a 10% load is applied to the pre-Medicare retiree per capita claim cost.

ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED)

Eligibility for Board-paid subsidy

90% of future retirees who meet eligibility conditions for retiree healthcare benefits are assumed to retire with at least 70% of the maximum sick leave allowance and therefore receive a Board-paid subsidy.

Participation

Future retirees who meet eligibility conditions for retiree healthcare benefits are assumed to participate as follows:

Eligible for Board-paid subsidy	98%
Eligible for self-paid benefits only	40%

80% of future retirees are expected to elect PPO coverage.

Spouse Coverage

Future retirees that elect coverage at retirement are assumed to enroll as follows:

	Single	Family
Election	40%	60%

40% of spouses are expected to continue coverage after the death of the retiree.

Females are assumed to be 3 years younger than their spouses.

Pension-related assumptions

Pension-related assumptions for participants covered under the Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers (“Teachers Plan”) that are effective with the actuarial valuation as of July 1, 2009, are assumed for the GASB 45 valuation.

Pension-related assumptions for participants covered under the Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan (“Administrators Plan”) and participants in covered positions who became members on or after July 1, 2003, who would otherwise have been participants in the plan, that are effective with the actuarial valuation as of July 1, 2009, are assumed for the GASB 45 valuation.

Other participants are covered under the City of Milwaukee Employees’ Retirement System (“ERS”) and those assumptions, as stated in the actuarial valuation report as of January 1, 2009, and provided by the actuary are assumed.

Rates are applied consistently with the pension valuations, using the GASB 45 census data, as provided by MPS. Retirement rates are applied at first eligibility for pension benefits, although retiree healthcare benefits may not be payable.

ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED)

Salary Increase¹

<u>Years of Service</u>	<u>Teachers</u>	<u>Administrators</u>	<u>Age</u>	<u>General Employees</u>
1	7.80%	6.50%	25	7.93%
5	7.50%	6.50%	30	6.79%
10	6.00%	6.40%	35	5.78%
15	5.00%	5.40%	40	4.89%
20	3.00%	4.40%	45	4.28%
25	3.00%	3.40%	50	3.96%
30 +	3.00%	3.00%	55	3.62%
			60 +	3.50%

Demographic Assumptions

Mortality¹

Teachers and Administrators 1994 Group Annuity Mortality Table, sex-distinct

General Employees For regular retirees and for survivors, the RP-2000 Mortality Table with mortality improvements projected to the year 2005 for males, and the UP-94 Mortality Table, with mortality improvements projected to the year 2000 for females. For death in active service, 70% of the rate for a regular retiree the same age.

Sample Disability Rates¹

% Separating Within Next Year

<u>Age</u>	<u>Teachers and Administrators</u>	<u>General Employees</u>	
		<u>Male</u>	<u>Female</u>
20	0.010%	0.060%	0.040%
25	0.010%	0.060%	0.040%
30	0.010%	0.060%	0.040%
35	0.010%	0.250%	0.100%
40	0.020%	0.300%	0.200%
45	0.080%	0.350%	0.300%
50	0.150%	0.700%	0.400%
55	0.240%	1.100%	0.500%
60	0.360%	0.900%	0.390%
65	0.000%	0.800%	0.240%

20% of disabilities are considered to be duty-related.

¹ Pension valuation assumptions effective in the July 1, 2009, actuarial valuations for Teachers and Administrators and as stated in the January 1, 2009, ERS actuarial valuation and provided by the actuary for general employees.

ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED)

Sample Turnover Rates ¹						
% Separating Within Next Year						
Age	Teachers	Administrators	General Employees			
			Less Than 5 Years of Service		At Least 5 Years of Service	
			Male	Female	Male	Female
20	12.000%	8.000%	14.000%	15.000%	10.000%	11.000%
25	10.900%	8.000%	13.500%	15.000%	9.750%	11.000%
30	8.800%	8.000%	11.200%	12.600%	5.321%	9.518%
35	5.800%	6.000%	8.200%	9.200%	5.530%	7.274%
40	3.100%	4.500%	7.000%	7.700%	3.672%	5.354%
45	1.300%	3.000%	7.000%	7.200%	2.753%	3.934%
50	0.600%	1.500%	6.400%	6.400%	1.931%	3.294%
55	0.000%	0.000%	6.000%	6.000%	1.529%	2.802%
60	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%

Sample Normal Retirement Rates ^{1,2}									
Teachers									
% Separating Within Next Year (Age and Service-Based)									
Service	55 - 56	57	58 - 59	60	61	62	63	64	65+
1	0.0%	0.0%	0.0%	5.0%	5.0%	5.0%	5.0%	5.0%	100.0%
5	0.0	0.0	0.0	5.0	5.0	5.0	5.0	5.0	100.0
10	4.0	5.0	4.0	10.0	14.0	18.0	14.0	11.0	100.0
15	9.0	10.0	9.0	15.0	19.0	23.0	19.0	16.0	100.0
20	14.0	15.0	14.0	20.0	24.0	28.0	24.0	21.0	100.0
25	22.0	23.0	22.0	28.0	32.0	36.0	32.0	29.0	100.0
30	34.0	35.0	34.0	40.0	44.0	48.0	44.0	41.0	100.0
35 +	50.0	50.0	50.0	60.0	60.0	100.0	100.0	100.0	100.0

¹ Pension valuation assumptions effective in the July 1, 2009, actuarial valuations for Teachers and Administrators and as stated in the January 1, 2009, ERS actuarial valuation and provided by the actuary for general employees.

² 100% retirement is assumed with 35 years of service.

ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED)

Sample Normal Retirement Rates ^{1,2}

% Separating Within Next Year (Age-Based)

Age	Administrators		General Employees	
	Certificated	Classified	Male	Female
55	18.000%	10.000%	45.000%	30.000%
56	24.000%	10.000%	27.000%	14.000%
57	30.000%	10.000%	27.000%	14.000%
58	23.000%	10.000%	24.000%	14.000%
59	16.000%	10.000%	22.000%	14.000%
60	39.000%	40.000%	20.000%	14.000%
61	32.500%	15.000%	16.000%	16.000%
62	26.000%	15.000%	24.000%	24.000%
63	19.500%	15.000%	20.000%	20.000%
64	30.000%	15.000%	20.000%	20.000%
65	100.000%	100.000%	28.000%	28.000%
66	100.000%	100.000%	22.000%	22.000%
67	100.000%	100.000%	15.000%	15.000%
68	100.000%	100.000%	15.000%	15.000%
69	100.000%	100.000%	15.000%	15.000%
70	100.000%	100.000%	100.000%	100.000%

Early Retirement Rates ^{1,2}

% Separating Within Next Year

Age	General Employees
55	2.000%
56	2.000%
57	2.000%
58	2.000%
59	2.000%

¹ Pension valuation assumptions effective in the July 1, 2009, actuarial valuations for Teachers and Administrators and as stated in the January 1, 2009, ERS actuarial valuation and provided by the actuary for general employees.

² Normal retirement eligibility for general employees is satisfied upon attainment of age 55 with 30 years of service or age 60 with 4 years of service. Early retirement eligibility for general employees is satisfied upon attainment of age 55 with 15 years of service.

SECTION G

PARTICIPANT DATA

PARTICIPANT DATA

Counts by Labor Unit

	Actives	Retirees and Surviving Spouses	Total
Board/Cabinet/ASC	648	738	1,386
Building Trades	148	175	323
Local 1053	492	311	803
Local 150 Building Service	413	76	489
Local 150 Food Service	793	292	1,085
Local 1616	172	98	270
Local 950	260	174	434
MTEA – Educational Assistants	1,779	330	2,109
MTEA – Sub Teachers	314	61	375
MTEA Teachers	5,847	3,812	9,659
PAMPS	150	56	206
MTEA - Accountants	<u>21</u>	<u>13</u>	<u>34</u>
	11,037	6,136	17,173

PARTICIPANT DATA (CONTINUED)

Retiree and Surviving Spouse Healthcare Coverage Type by Labor Unit

	1 Person	2 Person	Total
Board/Cabinet/ASC	392	346	738
Building Trades	85	90	175
Local 1053	201	110	311
Local 150 Building Service	64	12	76
Local 150 Food Service	209	83	292
Local 1616	58	40	98
Local 950	96	78	174
MTEA – Educational Assistants	222	108	330
MTEA – Sub Teachers	25	36	61
MTEA Teachers	2,036	1,776	3,812
PAMPS	37	19	56
MTEA - Accountants	<u>9</u>	<u>4</u>	<u>13</u>
	3,434	2,702	6,136

Note: Coverage Type by Labor Unit for actives not provided because assumption is made on coverage type at the time of retirement.

**Milwaukee Public Schools
 Retiree Healthcare and Life Insurance Programs
 Actuarial Valuation as of July 1, 2009
 Age Service Distribution for Total Active Population**

Attained Age	<u>Years of Service to Valuation Date</u>									Total
	0-1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	Over 35	
Under 20										-
20-24	74	34								108
25-29	227	549	82	4						862
30-34	103	346	619	126	2					1,196
35-39	70	215	424	567	104	2				1,382
40-44	51	173	321	453	483	87	4			1,572
45-49	38	126	247	407	403	363	60	2		1,646
50-54	28	101	218	324	383	371	183	110	7	1,725
55-59	19	88	198	262	308	316	127	206	58	1,582
60-64	11	38	94	141	148	143	61	46	67	749
65-69	1	6	23	39	40	22	4	7	16	158
Over 70		5	4	12	13	9	3	4	7	57
Total	622	1,681	2,230	2,335	1,884	1,313	442	375	155	11,037

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

Age: 45.2 years
 Service: 13.1 years
 Total Pay: \$507,339,127
 Average Pay: \$45,967

APPENDIX

BACKGROUND ON GASB STATEMENTS NOS. 43 AND 45

GASB BACKGROUND

GASB now requires the cost associated with providing postemployment benefits other than pensions, or OPEB, to current and former employees to be calculated and disclosed in financial statements. OPEB benefits are most often associated with postemployment healthcare, 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, the valuation includes the liabilities for benefits expected to be paid to current active employees when they terminate employment at a future date.

The rising cost of healthcare has been a cause of concern to both individuals and employers who sponsor healthcare plans. The accounting community became concerned that many sponsors of public plans were accounting for the cost of their OPEB plans solely on the basis of benefits paid and that this method did not accurately reflect the ultimate cost of benefits promised to current and former employees. In 1988, the Governmental Accounting Standards Board (GASB) began working on a project to develop comprehensive standards for financial reporting of OPEB plans.

The GASB determined that an OPEB plan was similar to a pension plan in that benefits are earned during an active employee's working lifetime but paid out at a future date. In the GASB's view, accounting for OPEB should follow the same basic principle as accounting for public plan pension cost: these benefits are compensation for employees' services and should be accounted for during the period of time that services are performed.

The GASB worked on comprehensive standards for OPEB accounting for more than a decade, culminating with the release of GASB Statements No. 43 and No. 45 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. The effective dates of the Statements are based on the implementation of GASB Statement No. 34, based on the sponsor's annual revenue for the first fiscal year ending on or after June 15, 1999, and follow the schedule below:

Total Annual Revenue In the First Fiscal Year Ending After June 15, 1999	GASB No. 43 OPEB Standards for the Plan's Financial Statements will be Effective for Periods Beginning After	GASB No. 45 OPEB Standards for the Employer's Financial Statements will be Effective for Periods Beginning After
Phase 1 Govts. - \$100 million or more	December 15, 2005	December 15, 2006
Phase 2 Govts. - \$10 million or more, But less than \$100 million	December 15, 2006	December 15, 2007
Phase 3 Govts. - Less than \$10 million	December 15, 2007	December 15, 2008

GASB STANDARDS

Unlike pension plans, OPEB plans often do not have a formal document detailing the specific terms of the plan. Under GASB No. 43 and No. 45 the benefits to be accounted for are those provided by the *substantive plan* – loosely defined as the benefits covered by the plan as understood by the employer and plan members at the time of each actuarial valuation. The substantive plan provisions used in this valuation are summarized in Section D.

GASB also requires that the calculations assume the terms of the substantive plan continue indefinitely. It has been argued that there is a likelihood future OPEB plan provisions would be different than the current substantive plan (due to rising health care costs or social changes) and therefore liabilities based on the current substantive plan may overstate what will actually occur. However, the GASB Statement is designed to measure liabilities for the plan as it currently exists. While it may be reasonable to assume future changes in the OPEB plan for other purposes, recognition of anticipated changes is not allowed for purposes of accounting for OPEB.

The specific items required to be disclosed on an OPEB sponsor's financial statements are described in detail in GASB No. 43 and No. 45. In general terms, though, the plan sponsor is required to disclose an annual OPEB cost, the funded status of the plan and the funding progress on the valuation date. Although GASB does not require OPEB contributions, it has chosen to call the base component of the annual OPEB cost the Annual Required Contribution, or ARC. The ARC consists of the cost of benefits accruing in a year plus an amount calculated to amortize any unfunded actuarial accrued liability over a period of not more than 30 years.

The funded status of the plan is a ratio of the plan's assets (if any) to the actuarial accrued liability on the valuation date. The plan is also required to disclose the cumulative difference between the ARC and the employer's actual contribution to the plan. This amount is known as the Net OPEB Obligation (NOO). Each year, the NOO accumulates with interest, plus the difference between the ARC and actual contributions for the year, plus some technical adjustments. **For most plans the NOO is set to zero as of the effective date of the GASB OPEB standard. It is the NOO, and not the actuarial accrued liability, that will be disclosed on the employer's Statement of Net Assets.**

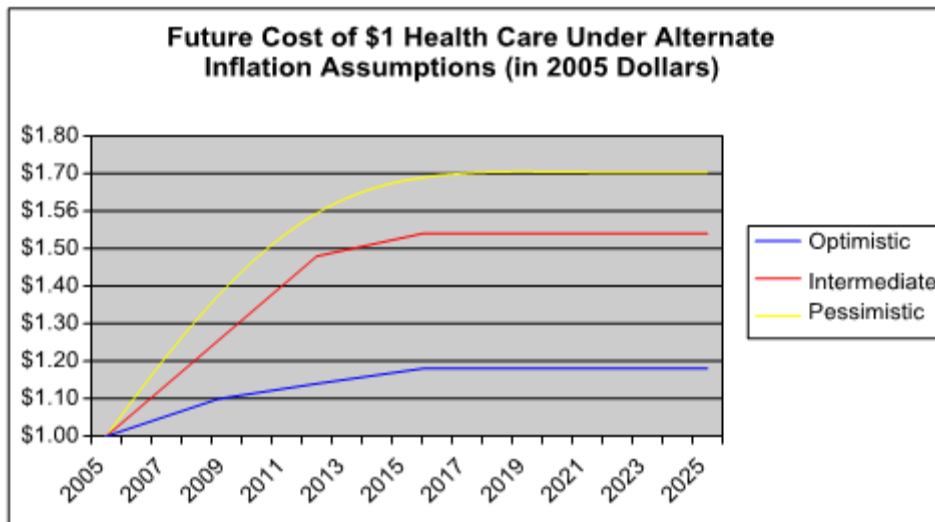
OPEB SPECIFIC ASSUMPTIONS

In any long-term actuarial valuation (such as for pensions and OPEB) certain demographic, economic and behavioral assumptions must be made concerning the population, investment discount rates, and the benefits provided. These actuarial assumptions form the basis for the actuarial model which is used to project the future population, benefits to be provided, and contributions to be collected. The investment return rate assumption is used to discount the future benefits to a present value on the valuation date. While assumptions such as future rates of retirement and mortality are similar for both OPEB and pension plans, there are some additional assumptions required when projecting benefits for a health care plan.

The cost of providing medical services has been increasing more rapidly than prices in general for many years. During the period from 1955 to 2005 general inflation averaged 4.0%, while health expenditures increased by an average of about 10% per year. If this trend is projected to continue for years to come, it implies that years from now virtually all our expenditures will be for health care. The seemingly more reasonable alternative is that in the not too distant future medical expense inflation will stabilize at a level at or near general inflation. It is on this basis that we project that retiree health care costs will continue to exceed general inflation in the near term, but by less each year until leveling off at an ultimate rate that is similar to general price increases.

Health care increase rates used in this valuation lie within a range of reasonable assumptions, and are described in Section E of this report. The health care increase rate assumption has a major effect on the calculation of plan liabilities. To illustrate the effect of differing future medical inflation rates, the following chart projects the growth of \$1 of health care benefit under three sets of assumptions.

In this illustration, each set of assumptions trends smoothly to an assumed long term rate of inflation over the next ten years: The assumption set labeled “Pessimistic” begins at a rate of 10% in excess of general inflation, the “Intermediate” assumption begins at a rate of 7% in excess of general inflation, while the “Optimistic” assumption begins at a rate of 3% in excess of general inflation.



OPEB SPECIFIC ASSUMPTIONS

The chart above shows that the cost of providing health care is expected to increase over 50% in inflation-adjusted dollars over the next 20 years, using the “Intermediate” health care increase assumption set. To put this in perspective, assuming health care increases are brought under control almost immediately, as in the “Optimistic” assumption set, implies future per capita health care costs will be expected to increase less than 20% over current levels. In addition to the per capita health care inflation, costs are expected to rise as the retiree population increases.

The selection of an investment return rate also has a major impact on the calculation of the reported GASB OPEB expense.

It is important to note that GASB Statements No. 43 and No. 45 require the selection of an interest rate assumption to be based on the expected long-term rate of return on the assets expected to pay the OPEB when due. GASB states that the return should be based on expected returns of:

- Plan assets – if the sponsor has been contributing the ARC on a regular basis;
- The employer’s general assets – where no OPEB assets have been accumulated;
- A blend of plan and employer assets – in cases where OPEB assets exist but the plan is contributing amounts less than the ARC.

ACTUARIAL COST METHOD

GASB Statement No. 45 provides some flexibility to governmental employers (and their actuaries) in the use of various actuarial cost methods. It should be noted that an actuarial cost method determines a contribution or expense by assigning portions of the present value of projected benefits to various years with the general goal of accruing the cost of benefits over the working lifetime of the employees. The choice of a particular method does not change the ultimate cost of the promised benefits.

The entry age normal actuarial cost method has been used to calculate the GASB ARC for this valuation. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The entry age normal cost method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability. If experience is in accordance with the assumptions used, the ARC should be stable as a percentage of payrolls. This is both an acceptable and reasonable cost method. The use of another actuarial cost method would produce different results.

OPEB PREFUNDING

Many employers fund retiree health care benefits using the pay-as-you-go (or cash disbursement) method. The employer's annual contribution for these benefits is equal to the actual disbursements during the year for health care benefits 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, increases. 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 retirees are provided a benefit payable at some future date. For defined benefit pension plan sponsors a common funding objective is to contribute annual amounts to a fund which will i) remain level as a percentage of active member payroll, and ii) when combined with present assets and future investment return will be sufficient to meet the financial obligations of the Plan to current and future retirees.

The ultimate determination as to the level of pre-funding will be the result of decisions made in an attempt to reconcile the often conflicting needs of benefit security for members and fiscal responsibility for the plan sponsor. The GASB accounting standards noted in the previous section of the report can factor into decisions concerning the level of pre-funding.