

SECTION 4

OTHER CONSIDERATIONSRisks and Limitations

Although the valuation results are based on what we believe to be reasonable assumptions, the valuation result is only an estimate of what future costs might actually be. Deviations in any of several factors influencing valuation results could result in actual costs being greater (or less) than estimated. Some of these factors include:

1. Future interest discounts lower than that assumed. We have assumed a long-term rate of interest of 9% per annum. To the extent that actual interest discounts are lower than 9%, the Plan's cost will be higher. (Note that the contrary is also true; that if actual interest rates are greater than 9% in the future, the Plan's cost will be less.)
2. Medical cost inflation risk. In our opinion, the major risk associated with the valuation estimate is that medical costs may continue to significantly exceed the underlying CPI rate. As described in Section 2, historically the medical cost rate has been substantially greater than the underlying CPI rate. If medical cost inflation is greater than assumed, Plan costs will be higher than estimated. For example, if medical cost increases were to reach an ultimate level of 8% per annum (rather than 7% per our assumptions), then we would expect net periodic postretirement benefit cost of approximately 20% more than that estimated.
3. Medicare coverage risk. We have assumed that the Medicare coverage structure would continue to be available to the City retirees. We think it likely that Medicare will continue to exist. However, it is unlikely that the coverage structure currently available will be available indefinitely. To the extent that Medicare substantially changes its reimbursement procedures (i.e., providing substantially lower Medicare equivalent benefits the City will be forced to revise its coverage structure). There is a very substantial risk that Medicare may be forced to decrease its retiree coverage structure in order to make adequate provision for its costs.

4. Marriage risk. All retirees were assumed to maintain their current marital status after retirement; therefore, health costs applicable to current circumstances will be applicable to future retirees. Of course, it is unlikely that no retirees will have changes in their marital status, and therefore this assumption may somewhat misstate the liability.

True Costs

The true costs of a retiree health plan cannot be determined until its future unfolds. No one can precisely predict the participant utilization rates, future health cost levels, mortality experience, etc. A reasonable approximation of this true cost can be provided through actuarial estimates based on past experience with similar groups and on the judgment of the actuary and plan sponsor.

As actual experience emerges under the Plan, the continued appropriateness of the techniques and assumptions employed should be examined, with modifications made as judged necessary, and the liability estimate adjusted consistent with the revised assumptions.

APPENDIX A

PLAN PROVISIONS SUMMARY

CITY OF GAINESVILLE RETIREE HEALTH CARE PLAN

SUMMARY OF PLAN PROVISIONS THAT AFFECT THE VALUATIONDefinitions

1. Plan Year: October 1 to September 30.
2. Employees Eligible to Receive Benefits: Any Employee terminating employment under the Normal, Early or Delayed Retirement provisions of the City of Gainesville General Employees' Pension Plan or the Consolidated Police Officers' & Firefighters' Retirement Plan; or who received benefits under the ICMA deferred compensation plan and who would have met retirement conditions under either retirement plan; or who becomes eligible to receive benefits under the City of Gainesville Disability Plan. If the employee is married at date of retirement or disablement, benefits are payable for each covered individual for life or until a surviving spouse becomes eligible for other coverage. Benefits are payable for dependent children until age 19 or extended benefits up to age 25.
3. Credited Service: The number of full and fractional years of employment, plus any unused sick leave.
4. Retirement Date:

General Plan
Normal Retirement Eligibility Date—the earlier of age 65 with 10 years of Credited Service and 20 years of Credited Service at any age.
Early Retirement Eligibility Date—the attainment of age 55 with 15 years of Credited Service.

Consolidated Plan
Normal Retirement Eligibility Date—the earlier of age 55 with 10 years of Credited Service and 20 years of Credited Service at any age.

Early Retirement Eligibility Date—none.

5. Benefit Accrual Percentage: While actively employed by the City, eligible employees accrue a percentage the City will pay toward their individual Retiree Health Care Plan premium, which percentage is determined as follows:
- 2% per year for the first 10 years of service, plus
 - 3% per year for the next 10 years of service, plus
 - 2% per year for each year of service beyond 20, plus
 - 2% per year for each year older than age 65 at coverage commencement, less
 - 2% per year for each year younger than age 65 at coverage commencement

provided that the percentage does not exceed 50%.

Benefits-Preferred Patient Care Plan

1. Deductible: \$750 per insured per plan year; no aggregate deductible.
2. Out-of-Pocket Maximum: \$2,750 per plan year per individual insured, including \$750 deductible.
3. Coordination of Benefits: Plan has Medicare carve out; assumes retiree has Medicare Parts A and B. Plan percentage applied to net of covered expenses less Medicare payments.
4. Physician Office Services (Primary Care): \$20 co-pay for office visit; no deductible.
5. Inpatient Hospital, Physician/Surgeon, X-ray/Lab Services: \$750 per admission deductible in addition to maximum out-of-pocket; 80% after deductible.
6. Outpatient Hospital (including Surgery): 80% after deductible.

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| 7. | Accident Benefit: | 80%; no deductible. | |
| 8. | Nursing, Hospice/Home Health Care: | 80% after deductible. | |
| 9. | Prescription Drug: | <u>Rx Card – Three Tier</u> | |
| | | Generic | \$15 co-pay |
| | | Preferred brand name | \$30 co-pay |
| | | Non-preferred brand name | \$50 co-pay |
| 10. | Oral Dental Surgery: | 80% after deductible. | |
| 11. | Mental/Nervous: | 80% after deductible; inpatient 40 days per calendar year, subject to per admission deductible of \$750; outpatient 30 visits per year; no additional deductible (other than regular). | |
| 12. | Lifetime Maximum: | \$3,000,000. | |

Basic Cost-sharing Provisions

The City will pay up to 50% of the actuarially determined future medical premiums for the base plan for current and future retirees. No benefits are provided for spouses and dependent children. Note certain additional benefits may be available for current retirees and spouses/dependents as well as for current active employees with 10 or more years of service under the transition plan.

Retirement

Employee Contribution: Retired employees pay monthly premiums for 100% of the spouse/dependent premium and their remaining share of the individual premium once the City pays the portion determined under the benefit accrual formula.

Disability

Employee Contribution: Disabled employees pay monthly premiums for 50% of the total premium; the City pays the remainder.

Transition Cost-sharing Provisions**For Retirees as of April 1, 1995**

1. Increase maximum benefit accrual percentage from 50% to 80% for single coverage and 155% for Family coverage.
2. Increase the Benefit accrual percentage by 8 percentage points for each year that age at 4/01/95 exceeds 65.
3. Increase Credited Service by 10% for each year of service over 10 to a maximum increase of 100%.
4. Provide minimum Benefit Accrual Percentage of 50%.
5. Provide minimum Benefit Accrual Percentage of 80% for single coverage and 75% toward dependent coverage for disabled retirees.

For Active Employees Eligible for Retirement as of April 1, 1995

1. Increase maximum benefit accrual percentage from 50% to 80% for single coverage and 155% for family coverage.
2. Increase the Benefit accrual percentage by 8 percentage points for each year that age at 4/01/95 exceeds 65.
3. Increase Credited Service by 10% for each year of service over 10 to a maximum increase of 100%.
4. Provide minimum Benefit Accrual Percentage of 35%.

For Active Employees with 10 or More Years of Service as of April 1, 1995, Not Eligible for Retirement

1. Increase maximum benefit accrual percentage from 50% to 80% for single coverage and 155% for family coverage.
2. Increase the Benefit accrual percentage by 8 percentage points for each year that age at 4/01/95 exceeds 65.
3. Increase Credited Service by 10% for each year of service over 10 to a maximum increase of 100%.