

City of Gainesville, Florida

Retiree Health Plan

Funding Report
October 1, 2017 Actuarial Valuation

July 11, 2018

© 2017 Conduent. All rights reserved. Conduent™ and Conduent Design™ are trademarks of Conduent in the United States and/or other countries.

Other company trademarks are also acknowledged.

July 11, 2018

Mr. Mark S. Benton
Finance Director
City of Gainesville
P.O. Box 490
Gainesville, Florida 32602-0490

**Re: *The City of Gainesville Retiree Health Plan Funding Valuation for the Fiscal Year
Ending September 30, 2018***

Dear Mr. Benton,

The City of Gainesville, Florida (the “City”) has retained Conduent to complete an actuarial funding valuation of the Retiree Health Plan (the “Plan”) and the associated Retiree Health Fund (the “Fund”) as of October 1, 2017. This report provides the results of that measurement.

High Level Funding Results (Explicit City Subsidy Only Basis)

The key results of this funding valuation as of October 1, 2017 are as follows:

- With assets of \$63.5 million and an Actuarial Accrued Liability of \$45.1 million, the plan has no unfunded liability.
- A recommended City contribution rate of 0.62% of City payroll for fiscal years ending in 2018 and 2019 to fund the normal cost arising from active employees earning the explicit City retiree medical subsidy.

Purpose of This Report

The results contained in this report are intended to determine the financial position of the City’s Retiree Health Plan and the related annual funding amounts for the fiscal years ending in 2018 and 2019.

Use of this report for any purpose other than that described above may not be appropriate and may result in mistaken conclusions due to failure to understand applicable assumptions, methodologies, or inapplicability of the report for that purpose. This report should not be presented except in its entirety. Because of the risk of misinterpretation of actuarial results, you should ask Conduent to review any statement you wish to make on the results contained in this report. Conduent will not accept any liability for any such statement made without prior review by Conduent. Conduent has prepared the schedules presented in this actuarial report, unless otherwise noted.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: retiree group benefits program experience differing from that anticipated by the assumptions; changes in 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); and changes in retiree group benefits program provisions or applicable law. Retiree group benefits models necessarily rely on the use of approximations and estimates, and are sensitive to changes in these approximations and estimates. Small variations in these approximations and estimates may lead to significant changes

in actuarial measurements. Because of limited scope, Conduent performed no analysis of the potential range of such future differences.

Data/Information Used

The valuation is based on census data, claims and premium information, plan provisions, and asset information provided by personnel of the City. The census data was provided as of January 1, 2018. For purposes of the valuation, the data has been assumed to be unchanged since October 1, 2017. This data was not reviewed for consistency or completeness beyond that necessary to develop the analysis. Such a detailed review of the data and its sources is beyond the scope of this analysis. To the extent that the data is incomplete or incorrect, the results of the analysis are also incomplete or incorrect. Our calculations do not reflect any other postemployment benefits other than those described in this report. The census data used are summarized in Appendix C.

Changes in Actuarial Assumptions, Methods, and Plan Provisions

Unless otherwise noted, the actuarial assumptions, methods and plan provisions reflected in this valuation are the same as those documented in our report titled, *The City of Gainesville Retiree Health Plan GASB 45 and 74 Disclosures for the Fiscal Year Ending September 30, 2017*, and dated March 2018. The actuarial assumptions and methods used in this valuation are summarized in Appendix A. The plan provisions reflected in this valuation are summarized in Appendix B. The Plan Sponsor provided this information and confirmed that there were no changes since the prior valuation.

The following changes in assumptions were reflected in the measurement of the benefit obligation as of October 1, 2017:

- The Plan assumed investment rate of return has been decreased from 8.10% to 8.00% as of October 1, 2017. This reduction was made to better reflect expectations for future investment returns, pursuant to direction from City personnel.
- The index used to determine increases in the Cadillac Tax thresholds were lowered from 3.75% to 2.70%.¹

The passage of healthcare reform in March 2010 ushered in many changes that might be expected to impact postretirement medical plans over time. We analyzed the effects of these changes for the City and summarized the results in Appendix D of the report, including additional discussion about the Cadillac Tax.

¹ For the determination of the High Cost Plan “Cadillac” Tax, we updated the CPI assumption to align with what was disclosed in the 2016 CAFR (Comprehensive Annual Financial Report) for the City’s pension plan, reducing the assumed rate from 3.75% to 3.00%. The *Tax Cuts and Jobs Act* (December 2017) changed the index used to increase Cadillac tax thresholds from CPI to “Chained CPI”. Based on recent data provided by the Bureau of Labor and Statistics, we have assumed that the “Chained CPI” is 90% of CPI, which is 2.70% for this valuation. Inclusion of the Cadillac Tax in plan costs adds less than 0.5% to the total Funding Actuarial Accrued Liability.

Actuarial Certification

Based on the foregoing, the results and actuarial exhibits presented in this report were determined on a consistent and objective basis in accordance with applicable Actuarial Standards of Practice and generally accepted actuarial procedures. They fully and fairly disclose the actuarial position of the Plan based on the employee and plan cost data submitted.

We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes are appropriate for purposes of this valuation and are reasonably related to the experience of the Plan and to reasonable long-term expectations. The report was prepared under the supervision of Stephen Oates, who is an Associate of the Society of Actuaries and a Member of the American Academy of Actuaries and has met the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. Mr. Oates is available to answer questions about this analysis.

Sincerely,



Stephen R. Oates, ASA, EA, MAAA
Principal, Health Actuary
Stephen.Oates@conduent.com
tel 610.651.8534
fax 610.647.6054
Conduent HR Consulting, LLC

CC: Dan Smierciak, William Johnston, April Shuping – City of Gainesville
David Woelfel, David Kershner, Kevin Spanier, Christian Hershey, Sean Walsh - Conduent

Table of Contents

Summary of Key Results.....	1
Summary of Data.....	2
Exhibit One – Valuation Results	3
Exhibit Two – Development of Unfunded Actuarial Accrued Liability (UAAL).....	4
Appendix A – Actuarial Assumptions and Methods	5
Economic Assumptions.....	5
Demographic Assumptions	9
Actuarial Methods	15
Appendix B – Summary of Plan Provisions	16
Eligibility	16
City Contributions for Future Retirees.....	17
City Contributions for Current Retirees	18
Opting-Out and Re-Entry	19
Limitations on Contributions.....	19
Annual Adjustments	19
Appendix C – Demographic Information	20
Active Participant Distribution as of January 1, 2018	20
Inactive Participant Distribution as of January 1, 2018.....	22
Appendix D – Healthcare Reform Considerations and Subsequent Events.....	23
Healthcare Reform	23

Summary of Key Results

This actuarial valuation of the City of Gainesville Retiree Health Plan provides the financial status of the plan as of October 1, 2017. Additionally, this report establishes the recommended City contribution amount for the fiscal years ending in 2018 and 2019.

Key Results

Based on the results of this actuarial valuation, the total City recommended contribution for the fiscal year ending September 30, 2018 is \$731,060 or 0.62% of the anticipated active member payroll provided by City personnel. Similarly, the total City recommended contribution for the fiscal year ending September 30, 2019 is \$767,613. This value represents 0.62% of the anticipated fiscal year ending September 30, 2019 payroll.

Overall, the Plan continues to be in a well-funded position. The ongoing funded status of the Plan largely depends on changes in the market value of assets and the level of future increases in health care costs.

Contribution Policy

The City's contribution policy is to pay the normal cost amount applicable to the City yearly cost of the current benefit structure (the fixed dollar structure including COLA adjustment). In addition, if there were ever an unfunded actuarial accrued liability (UAAL), then the City would amortize those UAALs over 10 years from inception as an additional contribution.

Changes Since Last Valuation

The discount rate has been lowered to 8.0% at the direction of City personnel. The assumptions used to estimate the impact of the Cadillac Tax on Plan liabilities were updated to reflect the "Chained CPI" index to project threshold limits. There have been no other changes in the actuarial assumptions, methods, or plan provisions since our last valuation, titled *The City of Gainesville Retiree Health Plan GASB 45 and 74 Disclosures for the Fiscal Year Ending September 30, 2017*, and dated March 2018.

The following table summarizes the key actuarial methods and assumptions used for this valuation:

Summary of Actuarial Methods and Assumptions	
Valuation Date	10/1/2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Salary
Remaining Amortization Period	Changes in UAAL are amortized over a 10-year closed period.
Discount Rate and Investment Rate of Return	8.00%

Valuation results are presented in Exhibits One and Two. A summary of actuarial assumptions and methods is contained in Appendix A and the plan provisions are described in Appendix B.

Summary of Data

The City provided Conduent with detailed census data for all active employees and retirees as of January 1, 2018. For valuation purposes, this data was assumed to remain unchanged since October 1, 2017. The active employee data provided for those covered under the City's active medical plan included date of birth, hire date, gender, pay, division, and a person ID, among other fields. For retirees, we were provided much of the same detailed data. Detailed medical plan descriptions, premium rates, and claims information were also provided by the City. Data provided for the pension valuations was used as a supplement where information was unavailable in the healthcare specific data. Where data was unavailable, reasonable assumptions were made. These participants represent a small portion of the population.

For each active employee, we calculated the actuarial accrued liability as of the valuation date based on reported age, years of service and salary. For retirees, those currently disabled, and dependents of these individuals, the actuarial accrued liability is the present value of all future benefits under the plan as of the valuation date. The valuation result is the sum of these individual calculations based on the provisions of the plan. The demographic assumptions used for the valuation are summarized in Appendix C. The census data is summarized below:

Summary of Census Data as of January 1, 2018	
Active Participants	1,980
DROP Participants	87
Terminated Vested Participants	504
Inactives Electing Florida Blue Coverage	608
Inactives Electing Medicare Supplement Medical Coverage	261
<u>Inactives Not Currently Electing Medical Coverage</u>	<u>627</u>
Total	4,067

Note, the inactive counts shown above include retired, disabled, and surviving spouse participants. Additional information regarding the data can be found in Appendix C.

Exhibit One – Valuation Results

	As of October 1, 2017
1.) Actuarial Present Value (APV) of Future Benefits	
Active Employees with less than 10 Years of Service	\$ 5,556,351
Active Employees with between 10 and 20 Years of Service	6,769,355
Active Employees with at least 20 Years of Service	5,102,081
<u>Current Retirees and Disableds</u>	<u>33,363,800</u>
Total Actuarial Present Value (APV) of Future Benefits	\$ 50,791,587
2.) Actuarial Present Value of Future Normal Costs	
Active Employees with less than 10 Years of Service	\$ 3,772,514
Active Employees with between 10 and 20 Years of Service	1,735,525
Active Employees with at least 20 Years of Service	205,161
<u>Current Retirees and Disableds</u>	<u>-</u>
Total Actuarial Present Value of Future Normal Costs	\$ 5,713,200
3.) Actuarial Accrued Liability (AAL) [(1) - (2)]	
Active Employees with less than 10 Years of Service	\$ 1,783,837
Active Employees with between 10 and 20 Years of Service	5,033,830
Active Employees with at least 20 Years of Service	4,896,920
<u>Current Retirees and Disableds</u>	<u>33,363,800</u>
Total Actuarial Accrued Liability (AAL)	\$ 45,078,387
4.) Actuarial Value of Assets	\$ 63,500,353
5.) Unfunded Actuarial Accrued Liability (UAAL) (If Any) [(3) - (4)]	\$ -
6.) City Payroll for the Fiscal Year Ending September 30, 2018¹	\$ 118,530,552
7.) Normal Cost as of October 1, 2017	\$ 731,060
Equivalent Normal Cost Contribution Rate [(7) / (6)]	0.62%
8.) UAAL Amortization Payment as of October 1, 2017	\$ -
Equivalent UAAL Amortization Payment Rate [(8) / (6)]	0.00%
9.) Recommended Contribution for Fiscal Year Ending 2018 [(6) + (7)]	\$ 731,060
Recommended Contribution Amount as a Percentage of Payroll [(9) / (6)]	0.62%
10.) Recommended Contribution for Fiscal Year Ending 2019¹	\$ 767,613
Recommended Contribution Amount as a Percentage of Payroll	0.62%

¹ Fiscal year ending 2018 payroll was provided by the City as of June 22, 2018. Per the City's guidance, we have assumed an aggregate payroll increase of 5.00%, per annum for fiscal year ending 2019.

Exhibit Two – Development of Unfunded Actuarial Accrued Liability (UAAL)

	Net	Liabilities	Assets
1.) (Funded)/Unfunded AAL as of October 1, 2015 ¹	\$ (14,398,928)	\$ 42,023,237	\$ (56,422,165)
2.) Normal Cost ¹	540,372	540,372	N/A
3.) Interest on (1) to September 30, 2016 (8.30%)	(1,195,111)	3,487,929	(4,683,040)
4.) Contributions:			
Employer Contributions	(540,550)	N/A	(540,550)
Employer Contributions - Implicit Rate Subsidy CY	(2,375,230)	N/A	(2,375,230)
Retiree Contributions	-	3,279,192	(3,279,192)
<u>Deductions</u>	-	(8,535,462)	8,535,462
Net Contributions	(2,915,780)	(5,256,270)	2,340,490
5.) <u>Interest on (4) to September 30, 2016 (8.30%)</u>	(118,594)	(213,788)	95,194
6.) Expected (Funded)/Unfunded AAL as of September 30, 2016 [(1) + (2) + (3) + (4) + (5)]	(18,088,041)	40,581,480	(58,669,521)
7.) Normal Cost ¹	551,179	551,179	N/A
8.) Interest on (6) to September 30, 2017 (8.20%)	(1,483,220)	3,327,681	(4,810,901)
9.) Contributions:			
Employer Contributions	(616,087)	N/A	(616,087)
Employer Contributions - Implicit Rate Subsidy CY	(1,006,642)	N/A	(1,006,642)
Retiree Contributions	-	3,405,757	(3,405,757)
<u>Deductions</u>	-	(7,521,012)	7,521,012
Net Contributions	(1,622,729)	(4,115,255)	2,492,526
10.) <u>Interest on (9) to September 30, 2017 (8.20%)</u>	(65,222)	(165,402)	100,180
11.) Expected (Funded)/Unfunded AAL as of September 30, 2017 [(6) + (7) + (8) + (9) + (10)]	(20,708,033)	40,179,683	(60,887,716)
12.) <u>Change in (Funded)/Unfunded AAL</u>	2,286,067	4,898,704	(2,612,637)
13.) (Funded)/Unfunded AAL as of October 1, 2017 [(11) + (12)]	\$ (18,421,966)	\$ 45,078,387	\$ (63,500,353)

¹ As reported in the October 1, 2015 actuarial valuation report provided by the previous actuary, Actuarial Concepts, titled *City of Gainesville Retiree Health Care Plan – 2015 Actuarial Valuation Report*, and dated July 28, 2016.

Appendix A – Actuarial Assumptions and Methods

Economic Assumptions

Discount Rate/Investment Rate of Return

The valuation assumes a discount rate of 8.00% per annum, compounded annually, net of investment expenses. The Plan assumed investment rate of return was lowered from 8.10% to 8.00% as of October 1, 2017 at the direction of City personnel.

Salary Scale

Individual prospective salaries are assumed to increase according to the following table:

Service	General	Police	Fire
Less than 5	5.00%	6.00%	5.00%
5 – 6	5.00%	5.00%	4.00%
7 – 9	4.00%	5.00%	4.00%
10 – 11	4.00%	4.00%	3.00%
12 – 14	3.00%	4.00%	3.00%
15 or More	3.00%	3.00%	2.00%

Retrospective salaries were based on the salary scales used in previous valuations.

Healthcare Claims Costs per Participant

The following claim costs were used only to calculate plan persistency as no implicit subsidy has been reflected in the funding results.

The table below shows assumed per capita claims costs at age 65 per covered individual for the period October 1, 2017 through September 30, 2018. These costs were developed using claims experience, census information, and plan provisions provided by the City. Retiree specific costs were calculated based on adjustments to these claims to account for age morbidity. Further adjustments were made based on the relative value of family to single contracts for active employees and retirees, and the portion of costs covered by Medicare; both of which were developed from information obtained from our manual rating tools.

Category	Medical	Rx	Admin
Pre-Medicare	\$12,503	\$3,237	\$392
Medicare	\$1,198	\$3,237	\$392

Calendar Year Premiums

The 2017 and 2018 calendar year premiums for the Florida Blue Health Options plan were supplied by the City were used in the development of City contributions, as follows:

Year	Single	Employee and Child	Employee and Spouse	Family
2017	\$6,942	\$9,709	\$13,752	\$17,676
2018	\$7,497	\$10,486	\$14,852	\$19,090

The City also provided us with 2018 Medicare Supplement premiums, by individual and split between Medical (Plan F) and Rx (Part D). The Medical Part F premiums vary by location, tobacco status, and age. These premiums were adjusted by age using the tiering provided for non-tobacco participants in Area 3.

Healthcare Cost Trend Rates

Healthcare cost trends reflect current survey information regarding short-term rates and industry expectations regarding long-term rates. The initial trend was developed using a blend of Rx, Medical pre-65, and Medical post-65 rates from the Conduent Trend Surveys. Ultimate trend was assumed to consist of 3.00% rate of inflation, 1.00% real per capita GDP growth, and 0.50% technology cost increases to reach 4.50%. The premium trend was derived by projecting initial claims using separate trend rates and determining the combined trend rates on the total cost. Administrative costs are assumed to increase with the rate of inflation. These rates are shown below:

Year	Medical		Premiums ¹	Rx
	Pre-Medicare	Medicare		
2017	7.80%	4.10%	7.70%	8.60%
2018	7.60%	4.20%	7.40%	8.30%
2019	7.30%	4.30%	7.20%	8.10%
2020	7.10%	4.40%	7.00%	7.80%
2021	6.80%	4.50%	6.80%	7.60%
2022	6.60%	4.50%	6.60%	7.30%
2023	6.30%	4.50%	6.40%	7.10%
2024	6.10%	4.50%	6.10%	6.80%
2025	5.80%	4.50%	5.90%	6.60%
2026	5.60%	4.50%	5.70%	6.30%
2027	5.30%	4.50%	5.40%	6.10%
2028	5.10%	4.50%	5.20%	5.80%
2029	4.80%	4.50%	5.00%	5.60%
2030	4.60%	4.50%	4.70%	5.30%
2031	4.50%	4.50%	4.60%	5.10%
2032	4.50%	4.50%	4.60%	4.80%
2033	4.50%	4.50%	4.50%	4.60%
2034+	4.50%	4.50%	4.50%	4.50%

¹ The City's contribution towards the Premium will be adjusted annually at the rate of 50% of the annual percentage change in the individual premium for the least costly (lowest premium) City Group Health Plan option being offered, compared to the Premium of the least costly option offered the prior plan year.

Age Morbidity Factors

The following age morbidity curves were used only to calculate plan persistency as no implicit subsidy has been reflected in the funding results.

An age morbidity curve developed based on a study performed by Dale Yamamoto for the Society of Actuaries was used to measure the annual increases in per capita claim costs for each age, and relative cost by gender adjusting the male age 65 per capita claims cost. See below for a sample of the table of factors used².

Age	Medical		Rx	
	Male	Female	Male	Female
15	0.1977	0.1938	0.1977	0.1938
20	0.1705	0.2326	0.1705	0.2326
25	0.1473	0.3101	0.1473	0.3101
30	0.1822	0.4341	0.1822	0.4341
35	0.2248	0.4651	0.2248	0.4651
40	0.2829	0.4612	0.2829	0.4612
45	0.3527	0.4884	0.3527	0.4884
50	0.4612	0.5736	0.4612	0.5736
55	0.6085	0.6667	0.6085	0.6667
60	0.7829	0.7791	0.7829	0.7791
65	1.0000	0.8862	1.0000	0.9884
70	1.0623	0.9120	1.2841	1.2622
75	1.0911	0.9707	1.4177	1.3792
80	1.1788	1.0900	1.4614	1.4087
85	1.3424	1.2851	1.3522	1.3419
90	1.5190	1.4680	1.1722	1.2237
95	1.6518	1.4727	1.0360	1.1247
100	1.6944	1.2937	0.9730	1.0746

These rates were used only to calculate Plan Persistency and no implicit subsidy has been reflected in the funding results contained herein.

² **Health Care Costs—From Birth to Death**, prepared by Dale H. Yamamoto, http://www.healthcostinstitute.org/files/Age-Curve-Study_0.pdf. Retrieved July 15, 2013. The Study was sponsored by the Society of Actuaries and is part of the Health Care Cost Institute's Independent Report Series.

Demographic Assumptions

Mortality Rates

The mortality assumptions were updated as of September 30, 2017 to match the September 30, 2017 Gainesville Police Officers' and Firefighters' Retirement Plan and the September 30, 2017 Gainesville General Employees' Pension Plan. The assumption used in this valuation is the same assumption used in the 2016 Florida Retirement System (FRS) valuation as it applies to "special risk" and "other than special risk" participants. The tables used are as follows:

- Healthy Inactive Mortality (Post-Employment)
 - Female: RP2000 Generational, 100% Annuitant White Collar, Scale BB
 - Male (other than Special Risk): RP2000 Generational, 50% Annuitant White Collar / 50% Annuitant Blue Collar, Scale BB
 - Male (Special Risk): RP2000 Generational, 10% Annuitant White Collar / 90% Annuitant Blue Collar, Scale BB
- Healthy Active Mortality (During Employment)
 - Female: RP2000 Generational, 100% Combined Healthy White Collar, Scale BB
 - Male (other than Special Risk): RP2000 Generational, 50% Combined Healthy White Collar / 50% Combined Healthy Blue Collar, Scale BB
 - Male (Special Risk): RP2000 Generational, 10% Combined Healthy White Collar / 90% Combined Healthy Blue Collar, Scale BB
 - For Special Risk members, 25% of future active member deaths are assumed to be in the line of duty
 - For all other members, 2% of future active member deaths are assumed to be in the line of duty
- Disabled Mortality
 - Female (other than Special Risk): RP2000, 100% Disabled Female set forward two years, no projection scale
 - Female (Special Risk): 60% RP2000 Disabled Female set forward two years / 40% Annuitant White Collar with no setback, no projection scale
 - Male (other than Special Risk): RP2000, 100% Disabled Male setback four years, no projection scale
 - Male (Special Risk): 60% RP2000 Disabled Male setback four years / 40% Annuitant White Collar with no setback, no projection scale

Plan Participation

Pre-Medicare and Medicare-eligible future retirees (i.e. active employees) and DROP participants were assumed to elect medical coverage according to the following table.

Age	Participation Percentage
45	0%
50	20%
55	40%
60	60%
65	80%
66	84%
67	88%
68+	90%

90% of future Medicare-eligible participants were assumed to choose coverage in the Alternative Medicare options, with the remaining 10% dropping coverage.

Current Medicare-eligible retirees (with medical coverage) and their spouses were assumed to remain with their current election. The previous valuation, which was based on a roll-forward of October 1, 2015 census data, had anticipated a migration of Medicare-eligible participants from the traditional Florida Blue plan to the Alternative Medicare options. The updated census data used in this valuation reflects the actual migration to this alternative benefit.

Plan Persistency

The portion of retirees electing contributory medical coverage was assumed to be in direct correlation to the employer's cost share of the total cost for eligible participants in each year of retirement. All pre-65 inactives are assumed to maintain their coverage until age 65. After age 65, persistency in the Florida Blue plan is related to the ratio of the expected employer subsidy to the expected claim costs in future years versus that same ratio at the time of the valuation. This assumption was based on recent plan experience. Medicare retirees in the Alternative Medicare plans were assumed to continue coverage for life.

Opt-In and Re-Entry Election

Deferred retirees (both pre-Medicare and Medicare-eligible participants, currently without medical coverage) were assumed to elect medical coverage at a rate of 10%. These participants were assumed to elect this coverage through an Alternative Medicare plan option once they become eligible for Medicare.

Medicare Supplement Utilization

Future Alternative Medicare plan participants were assumed to utilize 95% of their available subsidy. This is based on the utilization rate for current Medicare Supplement participants, for whom actual utilization is based on current plan premiums.

Percent with Covered Spouses

28% of female and male employees are assumed to cover a spouse at retirement. Future female spouses are assumed to be two years younger than future male spouses. These assumptions were based on recent plan experience.

Retirement Rates

Varies by age, service, date of hire, and division. Selected as part of an experience study covering the 5-year period ending September 30, 2010. Sample rates given below:

General/GRU Employees (Hired On or Before October 1, 2007)							
Years of Service							
Age	< 10	10 - 14	15 - 19	20	21 - 24	25 - 26	27+
< 57	0.0%	0.0%	7.5%	20.0%	5.0%	10.0%	25.0%
57 – 59	0.0%	0.0%	7.5%	30.0%	7.5%	10.0%	25.0%
60 – 64	0.0%	0.0%	7.5%	30.0%	30.0%	10.0%	25.0%
65+	0.0%	33.0%	33.0%	50.0%	30.0%	20.0%	100%

General/GRU Employees (Hired On or After October 2, 2007, But On or Before October 1, 2012)							
Years of Service							
Age	< 10	10 - 14	15 - 19	20 - 24	25	26 - 29	30+
< 57	0.0%	0.0%	5.0%	5.0%	20.0%	10.0%	25.0%
57 – 59	0.0%	0.0%	5.0%	5.0%	30.0%	10.0%	25.0%
60 – 64	0.0%	0.0%	5.0%	5.0%	30.0%	10.0%	25.0%
65+	0.0%	33.0%	33.0%	33.0%	50.0%	20.0%	100%

General/GRU Employees (Hired On or After October 2, 2012)							
Years of Service							
Age	< 10	10 - 14	15 - 19	20 - 24	25	26 - 29	30+
< 57	0.0%	0.0%	5.0%	5.0%	5.0%	5.0%	25.0%
57 – 59	0.0%	0.0%	5.0%	5.0%	5.0%	5.0%	25.0%
60 – 61	0.0%	0.0%	5.0%	5.0%	5.0%	5.0%	25.0%
62	0.0%	0.0%	7.5%	15.0%	15.0%	15.0%	50.0%
63 - 64	0.0%	0.0%	5.0%	5.0%	5.0%	5.0%	50.0%
65+	0.0%	33.0%	33.0%	33.0%	33.0%	33.0%	100.0%

Consolidated (Police/Fire) Employees				
Years of Service				
Age	< 20	20	21 - 24	25+
< 58	0.0%	25.0%	5.0%	100%
58+	100%	100%	100%	100%

Withdrawal Rates

Varies by age, service, date of hire, and division. Selected as part of an experience study covering the 5 year period ending September 30, 2010. Sample rates given below:

General/GRU Male Employees						
Years of Service						
Age	0 – 1	1 - 2	2 - 3	3 - 4	4 - 5	5+
< 30	14.0%	12.0%	8.0%	6.0%	5.0%	4.0%
30 – 34	14.0%	12.0%	8.0%	6.0%	5.0%	3.0%
35 – 39	14.0%	12.0%	8.0%	6.0%	5.0%	2.5%
40 - 64	14.0%	12.0%	8.0%	6.0%	5.0%	2.0%
65+	14.0%	12.0%	8.0%	6.0%	5.0%	0.0%

General/GRU Female Employees						
Years of Service						
Age	0 – 1	1 - 2	2 - 3	3 - 4	4 - 5	5+
< 30	22.0%	16.0%	13.0%	11.0%	10.0%	7.0%
30 – 34	22.0%	16.0%	13.0%	11.0%	10.0%	5.0%
35 – 39	22.0%	16.0%	13.0%	11.0%	10.0%	4.0%
40 - 64	22.0%	16.0%	13.0%	11.0%	10.0%	3.0%
65+	22.0%	16.0%	13.0%	11.0%	10.0%	0.0%

Police Employees						
Years of Service						
Age	0 – 1	1 - 2	2 - 3	3 - 4	4 - 5	5+
< 30	20.0%	12.0%	8.0%	6.0%	4.0%	4.0%
30 – 34	20.0%	12.0%	8.0%	6.0%	4.0%	3.5%
35 – 39	20.0%	12.0%	8.0%	6.0%	4.0%	2.0%
40 - 44	20.0%	12.0%	8.0%	6.0%	4.0%	1.5%
45 - 49	20.0%	16.0%	8.0%	6.0%	4.0%	1.0%
50 - 54	20.0%	12.0%	8.0%	6.0%	4.0%	0.5%
55+	20.0%	12.0%	8.0%	6.0%	4.0%	0.0%

Fire Employees	
Age	Withdrawal Rates
< 30	2.5%
30 - 34	2.0%
35 - 39	1.5%
40 – 44	1.0%
45 – 49	0.5%
50+	0.0%

Disability Rates

Varies by age, service, date of hire, and division. Sample rates given below:

General/GRU Employees		
Age	Male	Female
25	0.03%	0.01%
30	0.06%	0.03%
35	0.07%	0.05%
40	0.10%	0.08%
45	0.19%	0.17%
50	0.31%	0.29%
55	0.52%	0.48%
60	0.69%	0.60%
65+	0.24%	0.15%

Consolidated (Police/Fire) Employees	
Age	Sample Rates
25	0.11%
30	0.14%
35	0.18%
40	0.31%
45	0.43%
50	0.85%
55	1.27%
60+	1.69%

Actuarial Methods

Measurement Date

The valuation was performed as of October 1, 2017. The census data was collected as of January 1, 2018 and was assumed to remain unchanged since the valuation date, October 1, 2017.

Basis of Valuation

This funding valuation does not reflect implicit, pre-Medicare subsidies provided by the City to pre-Medicare retirees and spouses. As the program uses blended active and retiree experience to establish plan premiums, the premium used for pre-Medicare retirees is lower than actual expected costs due to age morbidity concerns (i.e. pre-Medicare retirees are more expensive than younger active employees). The City's funding policy focuses only on the explicit subsidy provided by the City to retirees.

Actuarial Cost Method

Liabilities and contributions shown in this report are computed using the Entry Age Actuarial Cost Method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the Normal Cost. The portion of this actuarial present value not provided for at the valuation date by the actuarial present value of future normal costs is called the Actuarial Accrued Liability.

Under this method, the Normal Cost is computed as the level percent of pay amount which, if paid from the earliest time each Member would have been eligible to join the plan if it then existed (thus, entry age), until his retirement or termination, would accumulate with interest at the rate assumed in the valuation to a fund sufficient to pay all benefits under the plan. The Normal Cost for the Plan is determined by summing individual results for each Active Member.

Asset Valuation Method

The market value of assets was provided by the City as of September 30, 2017.

Amortization Method

The Unfunded Actuarial Accrued Liability (UAAL), if any, is amortized as a level percent of pay over 10 years.

Appendix B – Summary of Plan Provisions

Eligibility

Members, spouse/civil union partners, and dependent children (until age 19 or extended benefits up to age 25) are eligible after the following:

- Normal, early, or delayed retirements through the City of Gainesville's General Employees' Pension Plan or the Consolidated Police Officers' and Firefighters' Retirement Plan; or
- Receiving benefits through the ICMA deferred compensation plan and satisfying the retirement conditions under either pension plan; or
- Becoming eligible to receive benefits under the City of Gainesville's Disability Plan.

In order for a member to retire through the City of Gainesville's General Employees' Pension Plan or the Consolidated Police Officers' and Firefighters' Retirement Plan, they must attain the following:

General Employees' Pension Plan:

1. Normal Retirement
 - a. Employees hired prior to 10/1/2007
 - i. 65 years of age and 10 years of credited service; or
 - ii. 20 years of credited service
 - b. Employees hired after 10/1/2007, but before 10/1/2012
 - i. 65 years of age and 10 years of credited service; or
 - ii. 25 years of credited service
 - c. Employees hired after 10/1/2012
 - i. 65 years of age and 10 years of credited service; or
 - ii. 30 years of credited service
2. Early Retirement
 - a. Employees hired prior to 10/1/2012
 - i. 55 years of age and 15 years of credited service
 - b. Employees hired after 10/1/2012
 - i. 60 years of age and 20 years of credited service; or

Consolidated Police Officers' and Firefighters' Retirement Plan:

1. Normal Retirement
 - a. 55 years of age and 10 years of credited service; or
 - b. 20 years of credited service; or
 - c. Combined age and credited service that is at least 70
2. Early Retirement
 - a. 50 years of age and 10 years of credited service

City Contributions for Future Retirees

For persons retiring after the dates set forth in this section, the city contribution towards a monthly premium shall be determined as follows:

1. **Normal or Early Retirement** - The amount that the city will contribute towards the required premium for persons first retired effective after August 31, 2008, under normal or early retirement, will be calculated in accordance with the following formula:

$$\$10.00 \times \text{number of years of credited service and portion thereof of:}$$
 - a. Plus $\$5.00 \times \text{number of years of age and portion thereof over 65, on the date that retiree first enters the retiree health insurance program; or}$
 - b. Minus $\$5.00 \times \text{number of years of age and portion thereof under 65, on the date that the retiree first enters the retiree health insurance program.}$
2. **DROP Participants** - Employees who have entered a regular DROP after August 31, 2008, or who declare their intention to reverse DROP after August 31, 2008, shall not have the period of employment while in regular DROP, or the period of employment after the effective date of commencement of participation in the (reverse) DROP, count as credited service under subsection (a) above.
3. **Disabled Retirees** - The amount that the city will contribute towards the required premium, for persons who became retirees based upon an application for disability retirement submitted after August 31, 2008, will be:
 - a. For approved "in-line-of-duty" disabilities under the consolidated police officers and firefighters retirement plan or the city employees disability plan, the city will contribute towards an individual premium an amount equal to:
 - i. 80% of the individual premium of the least costly (lowest premium) city group health insurance plan option being offered at the time the disability retirement is approved.
 - ii. The city will contribute towards any other tier of coverage an amount equal to 150% of the individual premium of the least costly (lowest premium) city group health insurance plan option being offered at the time the disability retirement is approved.
 - b. For approved disabilities other than "in-line-of-duty", the city will contribute 50 percent of the amount described above.

City Contributions for Current Retirees

For retired participants that meet the criteria described below, the city contribution towards a premium shall be determined as follows:

1. **Normal or Early Retirement** – The amount that the city will contribute towards the required premium for persons first retired effective before September 1, 2008, under normal or early retirement will be calculated in accordance with the following formula:

\$10.00 x number of years of credited service and portion thereof of:

- a. Plus \$5.00 x number of years of age and portion thereof over 65, on the date that retiree first enters the retiree health insurance program or January 1, 2009, whichever is later; or
 - b. Minus \$5.00 x number of years of age and portion thereof under 65, on the date that retiree first enters the retiree health insurance program or January 1, 2009, whichever is later.
2. **DROP Participants** - Employees who have entered a regular DROP before September 1, 2008, or who have declared their intention to reverse DROP before September 1, 2008, shall have the period of employment while in the regular DROP, or the period of employment after the effective date of commencement of participation in the (reverse) DROP, added to credited service for purposes of the calculation described above.
 3. **Disabled Retirees** - The amount that the city will contribute towards the required premium, for persons who became retirees based upon application for disability retirement submitted before September 1, 2008, will be an amount equal to:
 - a. 80% of the individual premium of the least costly (lowest premium) city group health plan option being offered at that time.
 - b. The city will contribute towards any other tier of coverage of an amount equal to 150% of the individual premium of the least costly (lowest premium) city group plan option being offered at that time.
 4. **Retirees at least 65 years of age January 1, 2009** - For current retirees age 65 years or older on January 1, 2009, the amount the city will contribute towards the required Premium will be the greater of the amount contributed for the month of August 2008 or the amount determined under the provisions of this article. Said amount shall however be subject to the limitations and adjustments described below.

Opting-Out and Re-Entry

A retired participant may exercise a one-time opt-out and re-enter the city group health plan or Medicare supplement plan in the future. The retiree and any dependents covered at the time of the opt-out will be able to re-enter the city group health plan, subject to eligibility requirements of the city group health plan. In addition, a retiree/participant may choose to not exercise his/her initial enrollment opportunity and this will not count as his/her one-time opt-out. Also, an employee non-participant who was eligible to apply for coverage during the most recent annual enrollment period who does not elect to enter the plan at the time of retirement will also not have this count as his/her one-time opt-out.

The intent of the opt-out provisions is to give the retiree an opportunity to decline or terminate coverage under the city's group health plan one-time without foregoing the benefit (eligibility to participate in the city group health plan) in the future. The benefit to the city is the transfer of premium cost and claims risk to another health plan during the opt-out period. Except as provided below, the city will recalculate the city's contribution based on the retiree's age upon re-entry into the city group health plan or the Medicare supplement plan, if applicable. This will potentially increase the city's contribution towards the retiree's monthly health insurance premium.

The retiree's city contribution shall be recalculated upon re-entry to the city group health plan or Medicare supplement plan when opting-out results in a transfer of claims risk from the city group health plan.

The retiree's city contribution shall not be recalculated when the opt-out does not result in a transfer of claims risk from the city group health plan. In this case, the retiree's city contribution will be frozen at the initial city contribution (not recalculated upon re-entry, but subject to the annual adjustments described below).

Limitations on Contributions

In no event shall the city's contribution toward a required premium exceed the amount of the premium the city contributes for active employees for the least costly (lowest premium) city group health plan option being offered at that time, for the applicable tier of coverage involved. In the event that the eligible retiree has elected to participate in the city sponsored, if any, Medicare supplement plan in lieu of participating in the city group health plan(s), the city's contribution shall not exceed the amount of the premium for the Medicare supplement plan.

Annual Adjustments

The city's contribution towards the required premium will be adjusted annually at rate of 50% of the annual percentage change in the individual premium for the least costly (lowest premium) city group health plan option being offered, compared to the premium of the least costly (lowest premium) option offered the prior plan year.

Appendix C – Demographic Information

Active Participant Distribution as of January 1, 2018

General Employees:

Average Age	47.13
Average Service	11.31

Years of Service									
Age	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35+	Total
<25	33	0	0	0	0	0	0	0	33
25 - 29	106	14	2	0	0	0	0	0	122
30 - 34	119	39	31	1	0	0	0	1	191
35 - 39	94	56	69	37	0	0	0	0	256
40 - 44	83	47	67	49	17	0	0	0	263
45 - 49	78	49	66	68	36	13	2	0	312
50 - 54	65	53	65	66	36	31	14	1	331
55 - 59	64	41	58	50	36	39	15	3	306
60 - 64	39	29	50	26	18	18	19	14	213
65+	11	4	18	16	4	4	2	7	66
Total	692	332	426	313	147	105	52	26	2,093

The active counts provided above include employees who currently do not have health coverage through the City plan.

Consolidated Employees:

Average Age	40.17
Average Service	11.92

Years of Service									
Age	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35+	Total
<25	24	0	0	0	0	0	0	0	24
25 - 29	38	8	0	0	0	0	0	0	46
30 - 34	31	43	19	0	0	0	0	0	93
35 - 39	13	17	43	12	0	0	0	0	85
40 - 44	6	16	21	22	6	0	0	0	71
45 - 49	3	4	23	13	19	9	0	0	71
50 - 54	2	3	6	8	10	27	1	0	57
55 - 59	2	1	1	7	3	7	0	0	21
60 - 64	1	0	1	1	2	1	0	0	6
65+	0	0	0	1	0	0	0	1	2
Total	120	92	114	64	40	44	1	1	476

The active counts provided above include employees who currently do not have health coverage through the City plan.

Inactive Participant Distribution as of January 1, 2018¹

General Inactive Participants²:

Age	Retirees	Spouses	Total
<50	4	1	5
50 - 54	23	9	32
55 - 59	72	21	93
60 - 64	158	38	196
65 - 69	165	40	205
70 - 74	126	21	147
75 - 79	56	9	65
80 - 84	30	5	35
85+	27	2	29
Total	661	146	807

Consolidated Inactive Participants³:

Age	Retirees	Spouses	Total
<50	3	9	12
50 - 54	3	4	7
55 - 59	40	11	51
60 - 64	29	14	43
65 - 69	51	13	64
70 - 74	40	9	49
75 - 79	26	4	30
80 - 84	12	5	17
85+	4	0	4
Total	208	69	277

¹ The inactive participant counts shown above only include participants that are currently receiving retiree health benefits through the City of Gainesville's Retiree Health Plan. These counts do not include those retirees who have declined coverage under the city's group health plan, yet have the ability to opt back in.

² The above General retiree counts include 6 surviving spouses and 22 disabled participants who are currently receiving medical benefits.

³ The above Consolidated retiree counts include 4 surviving spouses and 16 disabled participants who are currently receiving medical benefits.

Appendix D – Healthcare Reform Considerations and Subsequent Events

Healthcare Reform

Health care delivery is going through a revolution due to the enactment of Health Care Reform. The Patient Protection and Affordable Care Act (PPACA), was signed March 23, 2010, with further changes enacted by the Health Care and Education Affordability Reconciliation Act (HCEARA), signed March 30, 2010. This valuation uses various assumptions that were modified based on considerations under Health Care Reform legislation. This Section discusses particular legislative changes that were reflected in our assumptions. 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 continue to monitor any potential impacts.

- **Early Retiree Reinsurance Program:** It is our understanding that the City is not participating in this program, thus, there is no effect on the liabilities.
- **Removal of Lifetime Maximum:** As the plans offered by the City have no Lifetime Maximum, there is no effect on the liabilities.
- **Medicare Advantage Plans:** The law provides for reductions to the amounts that would be provided to Medicare Advantage plans starting in 2011. The City does not currently offer a Medicare Advantage plan.
- **Expansion of Child Coverage to Age 26:** Valuation per capita costs are developed using plan premiums that apply to both active and retiree populations. As the assumed per capita claims costs are based on actual claims (including adult children), any increase in plan liabilities due to extended coverage of adult children are already reflected in the premiums and therefore are reflected in the valuation.
- **Medicare Part D Subsidy:** Gainesville does not receive Retiree Drug Subsidy reimbursements; there is no impact reflected in the retiree medical valuation.
- **Excise Tax on High-Cost Employer Health Plans (aka Cadillac Tax):** Health Care Reform includes various revenue raisers. One of the more complex revenue raisers is the High Cost Plan Excise Tax, also known as the Cadillac Tax. While its stated intent is to tax only high cost plans that provide what might be considered “Cadillac” benefits, as legislated, it is likely to have much broader impact. The tax limits above which the benefits are taxed increase only at Chained CPI (assumed to be 2.70% in this valuation, while CPI is assumed to be 3.00%); while we continue to assume that health care costs will increase faster, reflecting real growth in GDP and technology innovations. Given that assumption, any health benefit, no matter how frugal initially, will ultimately be assumed to cost more than the limit resulting in a tax. We assume that the cost of any Cadillac tax is included in the form of higher premiums, and have estimated the impact by use of a higher “loaded” trend rate assumption. The impact of the Cadillac Tax is estimated to be <0.50% of the Plan’s liabilities. The implementation date for the Cadillac Tax is scheduled to be effective in 2022.

- **Health Insurance Marketplace:** Coverage through the public exchange (or “Marketplace”) created by the Affordable Care Act became available starting in 2014, with open enrollment beginning on October 1, 2013. This has introduced a new alternative health coverage choice for the City’s retirees and their dependents. Based on the City’s current retiree premium structure, we would not expect that many retirees would choose the public option over the City’s plan. However, in some cases, some may find alternative coverage in the Marketplace. Given uncertainty around Marketplace pricing and networks, we have not made any assumption in this valuation for possible City plan election drop-off due to this alternative coverage. However, we recommend that the City monitor this issue and explore the potential opportunities created by the Marketplace both for the plan and the City’s participants.
- **Other:** 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 continue to monitor any potential impacts.