

# Other Post Employment Benefits

## INTRODUCTION

The Governmental Accounting Standards Board (GASB) establishes generally accepted accounting principles (GAAP) for public institutions, including school systems. These are the rules used by independent auditors as they attest to the fair presentation of our annual financial statements. Statements 43 and 45 relate to the financial presentation of other post employment benefits (OPEB). The main thrust of GASB Statement No. 45 is to require for the first time that public sector employers recognize the cost of other post employment benefits (OPEB) over the active service life of their employees rather than on a pay-as-you-go basis. In simple terms:

An employee earns retiree health care and other benefits while working and the employer should accrue that cost while the employee is working (similar to pension). If the employer has not established a fund for the future benefits, the employer has a liability. An actuarial valuation is required to determine the future liability. The future liability or plan includes the cost of benefits (health, dental and life premiums) plus expenses less a projected return on investment. An actuarial valuation is an estimate of the cost of the plan. Information needed to complete the actuarial valuation is current demographics and benefit costs, an estimate of future retirees (and dependents), demographic assumptions, an estimate of future benefit costs, and trends of current costs and claims. The end result would be to discount the future costs to the valuation date using a discount rate determined by whether the Plan is funded or not funded.

## OTHER POST EMPLOYMENT BENEFITS – HARFORD COUNTY PUBLIC SCHOOLS

Other post employment benefits are health, dental, and life insurance benefits paid by HCPS on behalf of retirees. In general 90% of the cost is paid by HCPS when an employee retires with ten years of continuous service. An exception applies to active employees and retirees enrolled in the traditional health plan in which case HCPS pays 80% of the cost. The benefits may be different for other organizations. GASB requires that the cost of OPEB be matched to the period in which the benefits are earned, just as we are required to do for pension costs. This means that future benefits costs for active employees upon retirement must be accrued and reported along with those costs for retirees.

To determine the amount that must be reported, we are required to employ actuarial services. In 2005 we retained the services of a benefits consulting company to perform actuarial services for HCPS in order to determine the size of the financial issue we would face.

A report was issued in September 2005 and updated in June 2007. Prior to completion of the 2007 Actuarial Report, the Board completed some changes to the enrollment for health and dental insurance plans.

The first change established a tiered eligibility system for enrollment.

1. Effective for employees hired after July 1, 2006, a tiered eligibility for retiree OPEB was established as follows:

Years of continuous service upon retirement	Benefit paid compared to active employees
Ten	One-third
Twenty	Two-thirds
Thirty or more	Full benefit

2. Until such time as legislative authority to invest OPEB trust funds in a manner consistent with pension trust funds and/or an ability to pool trust funds is granted, HCPS will hold, as designated for OPEB, monies from Medicaid Part D reimbursements and excess rate stabilization amounts in the Harford County Health Care Consortium.

## Other Post Employment Benefits

On October 23, 2006 the Board approved additional changes for enrollment.

1. Eliminate open enrollment for retirees and require they make a one-time health plan selection upon retirement and only permit "life style changes" subsequent to this selection for retirees enrolled in a HCPS health plan. Current retirees were identified and a special open enrollment was held for them in April, 2007 so that they could make a one-time decision as well.
2. Implement a tiered rate structure to eliminate the "hidden subsidy" effective July 1, 2007. Revised rate charts were issued prior to July 1, 2007.

The published insurance rates (for persons prior to Medicare eligibility) have historically been based primarily on the healthcare usage of active employees. Since retirees use health care at a rate much higher than the active employees, using blended rates created a hidden subsidy for the retiree group. Beginning with FY 2008, the published rates for retirees were based solely on retiree healthcare usage, effectively eliminating the hidden subsidy.

In addition, on December 17, 2007 the board approved the following:

1. The Superintendent is authorized to create the Harford County Public Schools OPEB Trust Fund and to participate in the MABE<sup>1</sup> OPEB Investment Trust upon its creation.
2. The Superintendent is authorized to execute any legal documents pertaining to the establishment and participation of the aforementioned Trusts.
3. Monies in excess of funding requirements in the Harford County Health Care Consortium Rate Stabilization accounts, Medicare Part D reimbursements, and unspent funds from the Harford County Public Schools flexible spending plan are to be transferred to the MABE OPEB Investment Trust as they become available and will be designated for this purpose in the future.

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<sup>1</sup> MABE is the Maryland Association of Boards of Education

# Other Post Employment Benefits

1. **The Actuarial Report**

The actuarial report was updated for FY 2009 and is reflected in the following pages.



August 19, 2009

Mr. James M. Jewell, CPA, CPFA  
Director of Budget  
Harford County Public Schools  
102 South Hickory Ave.  
Bel Air, Maryland 21014

Dear Jim:

The following sets forth the July 1, 2008 GASB 45 Annual Expense for Harford County Public Schools for the Fiscal Year Ending June 30, 2009.

The report is based on October 1, 2008 census data, which is less than 24 months before the first day of fiscal year 2009. Accordingly, provided that there are no significant changes in plan design or employee demographics, these results could be relied upon to comply with GASB 45 in 2009.

The report is based on data submitted by the Schools and medical claims as reported by the carriers. We have not performed an audit on the data and have relied on this information for purposes of preparing this report.

The report set forth information that will be required in accordance with the Governmental Accounting Standards Board No. 45.

These values have been computed in accordance with generally accepted actuarial principles and practices. The various actuarial assumptions and methods which have been used are, in our opinion, appropriate for the purposes of this report.

Respectfully submitted,

Handwritten signature of Kevin Binder in black ink.

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# Other Post Employment Benefits

Harford County Public Schools  
GASB 45 – Accounting for Post-Employment  
Benefits Other Than Pension

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## 1. Executive Summary

### Background

In June 2004 the Government Accounting Standards Board (GASB) released Statement 45 which revised the GAAP accounting standards for post employment benefits other than pensions (OPEB). This standard will be applied to post employment medical benefits that are provided to Harford County Public School retirees. Prior to the new standard these benefits were accounted for on a pay as you go basis. The new standard requires that these benefits be accounted for on an accrual basis.

This is the second report under the new standard. The initial report prepared for FY 2008 was completed on June 30, 2008. The expense was based on a partially funded discount rate of 6.75%.

### OPEB Trust Arrangement

In FY 2008, Harford County Public Schools deposited \$11,726,951 to an irrevocable trust to pay benefits and fund the plan. In addition the Schools paid OPEB benefits directly to retirees in the estimated amount of \$14,688,234, for Total OPEB payments of \$26,415,185. Since this amount did not exceed the FY 2008 ARC of \$34,905,000, there is a Net OPEB Obligation (NOO) of \$8,489,815. This amount is a debit on the School's statement of Net Financial Position in the 2008 CAFR.

### Funding Policy

The discount rate used to determine the liabilities under GASB 45 depends upon the School's funding policy. Government entities that contribute an amount at least equal to the GASB 45 annual required contribution (ARC) to a trust that can only be used to pay other post-retirement benefits, discount liabilities based on the expected long-term rate of return of the Trust.

### The Annual Expense (ARC)

The annual cost of OPEB benefits under GASB 45 is called the annual required contribution or ARC. Results are shown under three scenarios for Harford County Public Schools; assuming that the 2009 trust contribution is equal to the funding target, assuming no trust contribution in 2009, and assuming that the contribution is approximately the same as it was in 2008.

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## 1. Executive Summary (cont.)

### Comparison With Previous Valuation

The initial valuation was based on March 1, 2007 data and completed June 30, 2008. The funded expense has increased from \$31,180,000 to \$32,025,000.

The following table compares the data and reconciles the expense.

Comparison of Current and Previous Valuations Discount Rate 8.00%*		
	July 1, 2007	July 1, 2008
<b>Demographic Data</b>		
Employees With Medical Coverage	4,360	4,567
Retirees Less Than Age 65	713	715
Retirees Age 65 or Greater	1,193	1,054
<b>Reconciliation of Funded ARC</b>		
Funded Expense Previous Valuation		\$31,180,000
Increase (Decrease) due to other Demographic Data		\$855,000
Expected Increase (due to passage of time)		\$2,076,000
Increase (Decrease) due to Baseline Claims		(\$3,196,000)
Increase (Decrease) due to Plan Improvements		(\$415,000)
Increase (Decrease) due to Changes in Medical Trend Assumption **		\$1,525,000
Funded Expense Current Valuation [Section 4]		\$32,025,000

\* The Reconciliation is based on the fully funded ARCs. Because the Plan is not fully funded, the ARC for FY2008 was determined using a discount rate of 6.75%.

\*\* See Page 4

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## 1. Executive Summary (cont.)

### Plan Provisions

Retirees can continue the same medical and dental coverage they had (including family coverage) as active employees. A subsidy of 80% or 90% for Pre-Medicare retirees is provided based on the plan chosen. A 90% subsidy is provided to Medicare eligible retirees and for dental coverage. The subsidy is also provided for dependent coverage. However, no subsidy is provided to surviving spouses. Life Insurance is also provided and partially paid for by the retiree. See section 3 for details.

The plan has been amended for employees hired on or after July 1, 2006. See section 5 for details.

### Demographic Data

Demographic data as of October 1, 2008 was provided to us by Harford County Public Schools. This data included current medical coverage for current employees and retirees.

Because the census data is less than 24 months before the first day of fiscal year 2009, it can be relied on to comply with GASB 45 for FY 2009.

Although we have not audited this data we have no reason to believe that it is inaccurate.

### Claims Data

Monthly paid claims, administrative expense and enrollment reports for retirees (only) through June 2008 were supplied by the providers. Claims were divided into pre and post 65 age retirees.

Although we have not audited the claims data we have no reason to believe that it is inaccurate.

# Other Post Employment Benefits

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## 1. Executive Summary (cont.)

### Demographic Assumptions

Demographic assumptions mirror those used for the pension plan, with adjustments made for actual experience of County employees. All employees are assumed to participate in the Maryland State Retirement System.

Section 7 details the assumptions for electing coverage.

### Economic Assumptions

The discount rate assumption is tied to the return expected on the funds used to pay these benefits. The discount assumption will be materially tied to the decision of whether or not to pre-fund these benefits. Our funded results are based on a 8.00% annual return, which assumes that the Schools will pre-fund these benefits starting at the beginning of the fiscal year that ends June 30, 2009. The unfunded discount rate is 4.00%.

The medical trend assumption was changed from the previous valuation to an assumption developed using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The SOA Model was released in December 2007. The following assumptions were used as input variables into this model:

Rate of Inflation	3.2%
Rate of Growth in Real Income / GDP per capita	0.9%
Income Multiplier for Health Spending	1.4
Extra Trend due to Technology and other factors	1.2%
Health Share of GDP Resistance Point	25.0%
Year for Limiting Cost Growth to GDP Growth	2075

# Other Post Employment Benefits

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## 1. Executive Summary (cont.)

The SOA baseline assumption of real income growth of 1.9% was reduced to .9% to be consistent with the payroll growth assumption.

The SOA Long-Run Medical Cost Trend Model and its baseline projection are based on an econometric analysis of historical U.S. medical expenditures and the judgments of experts in the field. The long-run baseline projection and input variables have been developed under the guidance of an SOA Project Oversight Group.

Payroll is assumed to increase at 3.0% per annum. This assumption is used to determine the level percentage of payroll amortization factor.

### Actuarial Certification

In preparing the valuation we relied on demographic and claims data provided by Harford County Public Schools. We reviewed the data for reasonableness, but did not audit the data. The actuarial methods and assumptions used in this report comply with GASB 45 and the actuarial standards of practice promulgated by the American Academy of Actuaries.

The healthcare cost trend rate selected is consistent with prevalent practices. As discussed above, increases of this magnitude cannot be sustained indefinitely. Accordingly, standard actuarial practice (and GASB 43 Paragraph 34.g.) is to assume an "ultimate trend" which is consistent with the best estimate of GNP growth. However, the number of years until the ultimate trend is attained and the rate of decrease are not known. There is a significant probability that between now and the next actuarial valuation we will not observe the anticipated amelioration of medical trend. If this is the case, the typical practice is to reset the initial trend and to defer the year that the ultimate trend rate is attained. If this occurs annual actuarial losses of 5% to 15% of liabilities due to the revised trend rate can be expected.

Kevin Binder is a Member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.



# Other Post Employment Benefits

**Harford County Public Schools  
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## 2. Plan Expense

### Expense

Below is a summary of the calculation of the Plan's Expense under the current provisions for the year ending June 30, 2009. These amounts are calculated as of the end of the year.

	Funded	Unfunded	Partially Funded
(1) Interest Rate	8.00%	4.00%	6.75%
(2) Liabilities as of July 1, 2008	\$323,015,000	\$589,795,000	\$381,655,000
(3) Assets as of July 1, 2008	\$ 12,136,368	\$ 12,136,368	\$ 12,136,368
(4) Amortization of Unfunded Accrued Liability			
(a) Unfunded Accrued Liability	\$ 310,878,632	\$ 577,658,632	\$ 369,518,632
(b) 30 Year Amortization Factor (Rounded)	15	25	18
(c) Amortization Amount	\$ 20,485,000	\$ 22,957,000	\$ 21,061,000
(5) Annual Required Contribution of Employer (ARC)			
(a) Normal Cost	\$ 11,420,000	\$ 27,834,000	\$ 14,686,000
(b) 30 Year Amortization of Unfunded Accrued Liability	\$ 20,485,000	\$ 22,957,000	\$ 21,061,000
(c) Total ARC	\$ 31,905,000	\$ 50,791,000	\$ 35,747,000
(6) Annual OPEB Cost (AOC)			
(a) ARC	\$ 31,905,000	\$ 50,791,000	\$ 35,747,000
(b) Less Amortization of NOO	(\$ 559,000)	(\$ 337,000)	(\$ 484,000)
(c) Plus Interest on NOO	\$ 679,000	\$ 340,000	\$ 573,000
(d) Total Cost	\$ 32,025,000	\$ 50,794,000	\$ 35,836,000
(7) 1% Sensitivity (ARC)	\$ 38,032,000	\$ 63,302,000	\$ 43,154,000
(8) Net OPEB Obligation (NOO)			
(a) Beginning of Year NOO	\$ 8,489,815	\$ 8,489,815	\$ 8,489,815
(b) Current Expense	\$ 32,025,000	\$ 50,794,000	\$ 35,836,000
(c) Expected Cash Payment to Retirees <sup>1</sup>	\$ 14,770,000	\$ 14,770,000	\$ 14,770,000
(d) Trust Contribution	\$ 17,255,000	\$ 0	\$ 11,725,000
(e) Projected End of Year NOO (a + b - c - d)	\$ 8,489,815	\$ 44,513,815	\$ 17,830,815

<sup>1</sup> The expected cash payment is comprised of (\$551,697) of implicit retiree and \$14,323,299 of explicit retiree, (\$3,295) of implicit active and \$1,001,593 of explicit active costs.

# Other Post Employment Benefits

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## 3. Liabilities

### Liabilities as of Valuation Date

Below is a summary of the Plan's Liabilities under the current provisions as of 7/1/2008. Item (4) shows the impact of a 1% increase in trend.

	Funded	Unfunded
(1) Discount Rate	8.00%	4.00%
(2) Actuarial Accrued Liability		
(a) Actives		
Life Insurance	\$ 2,419,763	\$ 5,535,410
Medical	<u>\$ 152,693,237</u>	<u>\$ 331,989,590</u>
Total	<u>\$ 155,113,000</u>	<u>\$337,525,000</u>
(b) Retirees in Pay Status		
Life Insurance	\$ 5,960,521	\$ 9,333,990
Medical	<u>\$ 161,941,479</u>	<u>\$242,936,010</u>
Total	<u>\$ 167,902,000</u>	<u>\$252,270,000</u>
(c) Totals		
Life Insurance	\$ 8,380,284	\$ 14,869,400
Medical	<u>\$ 314,634,716</u>	<u>\$574,925,600</u>
Total	<u>\$ 323,015,000</u>	<u>\$589,795,000</u>
(3) Normal Cost		
(a) Normal Cost for Benefits		
Life Insurance	\$ 203,276	\$ 467,611
Medical	<u>\$ 11,216,724</u>	<u>\$ 27,366,389</u>
Total	<u>\$ 11,420,000</u>	<u>\$ 27,834,000</u>
(b) Expense Load	<u>\$ 0</u>	<u>\$ 0</u>
(c) Total Normal Cost	<u>\$ 11,420,000</u>	<u>\$ 27,834,000</u>
(4) Trend Sensitivity		
(a) Actuarial Accrued Liability	\$ 365,358,000	\$698,914,000
(b) Total Normal Cost	<u>\$ 13,957,000</u>	<u>\$ 36,009,000</u>

# Other Post Employment Benefits

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## 4. Funding Target

### Funding Target

If Harford County contributes an amount to the trust that is less than the funding target, a partially funded discount rate will be used to determine the expense in FY2009.

The following shows the development of the partially funded discount rate if the contribution is at, or around the same level as last year. If a different amount is contributed, the discount rate will change, according to the formula in Item 7.

This illustration assumes benefits continue to be paid out of general funds. If benefits are paid by the trust, the contribution used for this determination must be adjusted by the trust paid benefit payments.

(1) Interest Rate	8.00%
(2) Liabilities as of July 1, 2008	\$323,015,000
(3) Assets as of July 1, 2008	\$ 12,136,368
(4) Amortization of Unfunded Accrued Liability	
a. Unfunded Accrued Liability	\$ 310,878,632
b. 30 Year Amortization Factor (Rounded)	15
c. Amortization Amount	\$ 20,485,000
(5) Gross Funding Target (Funded ARC)	
a. Normal Cost	\$ 11,420,000
b. 30 Year Amortization of Unfunded Accrued Liability	\$ 20,485,000
c. Total ARC	\$ 31,905,000
(6) Net Funding Target	
a. Gross Funding Target	\$ 31,905,000
b. Estimated PayGo (including hidden subsidy)	\$ 14,770,000
c. Net Funding Target	\$ 17,135,000
(7) Determination of Partially Funded Discount Rate	
a. Net Funding Target	\$ 17,135,000
b. Prior Year Trust Contribution <sup>2</sup>	\$ 11,725,000
c. Percent Funded [(a) + (b)]	68%
d. Funded Discount Rate	8.00%
e. Unfunded Discount Rate	4.00%
f. Partially Funded Discount Rate <sup>1</sup>	
$[(c) \times (d) + (1.0 - (c) \times (e))]$	6.75%

1. Rounded to the nearest quarter percent.  
 2. In addition to benefit payments made by trust.

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## 5. Summary of Principal Plan Provisions

The following summary describes principal plan provisions assumed in calculating the cost of your plan.

### General Eligibility Rules

Eligible participants are assumed to be employees, former employees, and beneficiaries of Harford County Public Schools who had health coverage as an active employee.

Maryland State Teachers' Pension System normal retirement eligibility is age 62 with 5 years of service, or age 63 with 4 years of service, or age 64 with 3 years of service, or age 65 with 2 years of service, or 30 years of service regardless of age. Early retirement eligibility is age 55 with 15 years of service.

Surviving Spouses can stay in the plan, but must pay the full cost to participate.

### Underlying Plan Description

Pre-Medicare Retirees have the option of choosing between three medical plans (an HMO Plan, PPO Plan or Traditional Plan) all of which are packaged with a prescription drug program. Post-Medicare Retirees have two plan options both of which are packaged with a prescription drug program.

### Retiree Contribution

Participants with less than 10 years of service receive no subsidy from Harford County Public Schools. Participants with 10 or more years of service receive an employer subsidy detailed below:

	<u>CareFirst Traditional</u>	<u>CareFirst PPO</u>	<u>CareFirst HMO</u>	<u>Dental</u>
<u>Under Medicare Age</u>	80%	90%	90%	90%
<u>Over Medicare Age</u>	90%	90%	90%	90%

Harford County Public Schools also subsidizes the cost of Life Insurance Coverage. Retirees pay \$0.024 per month per \$1,000 of coverage per month.

### Life Insurance

At retirement, retirees receive \$20,000 of Life Insurance coverage. This amount decreases by \$2,000 each July 1 to a floor of \$10,000. Retirees pay \$0.024 per month per \$1,000 of coverage per month.

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### 5. Summary of Principal Plan Provisions (cont.)

For employees hired after July 1, 2006 the medical and dental subsidy will depend upon years of service at retirement as summarized in the following table. In addition, the cost for life insurance will vary by years of service at retirement.

<u>Years of Service At Retirement</u>	<u>Subsidy</u>	<u>Cost per \$1,000 of Life Insurance</u>
0 – 10	0%	--
10 – 19	30%	16.8¢
20 – 29	60%	9.6¢
30 +	90%	2.4¢

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## 6. Valuation Data

### Counts

The following table summarizes the counts, ages and, coverage as of 7/1/2008, for those currently enrolled in Medical/Drug coverage.

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(1)	Number of Participants	
	(a) Active Employees	4,567
	(b) Retirees (Pre-Medicare)*	715
	(c) Retirees (Post-Medicare)*	1,054
(2)	Active Statistics	
	(a) Average Age	43.98
	(b) Average Service	10.59
(3)	Inactive Statistics (In Pay Status)	
	(a) Average Age – Pre-Medicare	60.60
	(b) Average Age – Medicare	73.71

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\*Does not include 131 participants who are not enrolled in Medical/Drug coverage but have life insurance coverage.

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## 6. Valuation Data (cont.)

### Active Age - Service Distribution

Shown below is the distribution of active participants with medical coverage based on age and service as of the valuation date.

Age	Years of Service as of 07/01/2008								Total
	Under 1	01-04	05-09	10-14	15-19	20-24	25-29	30+	
Under 25	92	154	2	0	0	0	0	0	248
25 - 29	60	372	156	0	0	0	0	0	588
30 - 34	32	157	222	91	0	0	0	0	502
35 - 39	36	133	118	169	62	0	0	0	518
40 - 44	22	125	113	82	95	40	3	0	480
45 - 49	19	142	127	102	65	91	31	4	581
50 - 54	24	81	123	150	106	61	55	57	657
55 - 59	8	56	71	90	103	100	37	126	591
60 - 64	12	35	43	46	59	48	16	63	322
65 +	2	8	20	9	9	8	10	14	80
<b>Totals</b>	<b>307</b>	<b>1,263</b>	<b>995</b>	<b>739</b>	<b>499</b>	<b>348</b>	<b>152</b>	<b>264</b>	<b>4,567</b>

The following table shows averages in total for Active participants in this valuation.

Averages	Amount
Age:	43.98
Service:	10.59

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## 7. Valuation Methods and Assumptions

### Cost Method

This valuation uses the Projected Unit Credit method with linear pro-ration to assumed benefit commencement.

### Amortization

The unfunded liability was amortized over a period of 30 years using level percentage of pay.

### Coverage Status and Age of Spouse

Actual coverage status is used; females assumed 3 years younger than male spouse.

Employees with family coverage are assumed to continue family coverage in retirement.

Employees with individual coverage are assumed to elect individual coverage in retirement.

Employees currently waiving coverage are assumed to continue to waive coverage in retirement.

### Election Percentage

Participants are assumed to elect coverage based on service as described below:

<u>Service</u>	<u>Election Rate</u>
4 or less	N/A
5 - 9	5%
10 or more	95%

### Interest Assumptions

Funded Discount Rate	8.00%
Partially Funded Discount Rate	6.75%
Unfunded Discount Rate	4.00%
Payroll Growth	3.00%



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## 7. Valuation Methods and Assumptions (cont.)

### Trend Assumptions

Medical and Prescription Drug	Base	Sensitivity
2008	8.76%	9.76%
2009	8.02%	9.02%
2010	7.28%	8.28%
2011	6.54%	7.54%
2012	5.80%	6.80%
2013 – 2019	5.70%	6.70%
2020 – 2024	5.60%	6.60%
2025 – 2029	5.50%	6.50%
2030 – 2039	5.40%	6.40%
2040 – 2049	5.20%	6.20%
2050 – 2059	4.90%	5.90%
2060 – 2069	4.70%	5.70%
2070 – 2079	4.60%	5.60%
2080 – 2089	4.20%	5.20%
2090 +	4.10%	5.10%

### Decrement Assumptions

Below is a summary of decrements used in this valuation. Sample Retirement, Disability, and Termination rates are illustrated in the tables below.

Mortality Decrements	Description
(1) Healthy	RP-2000 Combined Healthy Table
(2) Disabled	RP-2000 Combined Disabled Table

Age	Retirement			
	Female		Male	
	Years of Service 20	30	Years of Service 20	30
50	0.00%	15.00%	0.00%	15.00%
55	5.00%	25.00%	3.00%	25.00%
60	8.00%	40.00%	4.00%	30.00%
65	25.00%	25.00%	22.00%	22.00%
70	22.00%	22.00%	22.00%	22.00%
75	100.00%	100.00%	100.00%	100.00%

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## 7. Valuation Methods and Assumptions (cont.)

Age	Termination Years of Service									
	0-1	2	3	4	5	6	7	8	9	10
30	14.90%	11.60%	9.90%	8.10%	7.80%	5.60%	5.40%	4.50%	3.90%	3.90%
35	14.90%	11.60%	9.90%	8.10%	7.80%	5.60%	5.40%	4.50%	3.90%	2.70%
40	14.90%	11.60%	9.90%	8.10%	7.80%	5.60%	5.40%	4.50%	3.90%	1.60%
45	14.90%	11.60%	9.90%	8.10%	7.80%	5.60%	5.40%	4.50%	3.90%	1.10%
50	14.90%	11.60%	9.90%	8.10%	7.80%	5.60%	5.40%	4.50%	3.90%	1.40%
55	14.90%	11.60%	9.90%	8.10%	7.80%	5.60%	5.40%	4.50%	3.90%	2.40%

Age	Disability	
	Male	Female
15	0.03%	0.03%
25	0.03%	0.03%
35	0.03%	0.06%
45	0.20%	0.22%
55	0.41%	0.56%
65	0.41%	0.56%

### Claims Assumption

Gross claims for employees and retirees are based on enrollment and paid medical claims and prescription for employees and retirees paid from July 1, 2006 to June 30, 2008. The claims were projected to Fiscal Year 2009. Claims were projected assuming annual increases of 9% for medical claims and 13% for prescription drug claims. The projected Pre-65 2006-2007 claims were weighted 25%, 2007-2008 75%.

The projected Post-65 2006 – 2007 claims were weighted 25%, and the projected 2007 – 2008 claims were weighted 75%.

# Other Post Employment Benefits

Harford County Public Schools  
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## 7. Valuation Methods and Assumptions (cont.)

### Claims Assumption (cont.)

The Chart below shows the current cost broken down between the published per capita cost (i.e. the blended rates) and the hidden subsidy.

<b>Total Costs</b>	<b>Single</b>	<b>Family</b>
1. Explicit Costs		
a. Pre-Medicare	8,017	16,275
b. Post-Medicare	5,116	10,232
2. Total Medical and Drug Costs		
a. Under 50	5,456	11,076
b. Age 50-54	6,590	13,378
c. Age 55-59	7,638	15,505
d. Age 60-64	8,936	18,141
e. Age 65-69	4,047	8,094
f. Age 70-74	4,715	9,431
g. Age 75-79	4,847	9,694
h. Age 80-84	5,101	10,202
i. Age 85 and over	5,012	10,024
3. Dental Costs	282	572

# Other Post Employment Benefits

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## 8. Glossary

<b>Annual OPEB Cost (AOC):</b>	An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.
<b>Annual Required Contributions of the Employer(s) (ARC):</b>	The employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.
<b>Covered Group:</b>	Plan members included in an actuarial valuation.
<b>Defined Benefit OPEB Plan:</b>	An OPEB plan having terms that specify the amount of benefits to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based on one or more factors such as age, years of service, and compensation), or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums).
<b>Employer's Contributions:</b>	Contributions made in relation to the annual required contributions of the employer (ARC). An employer has made a contribution in relation to the ARC if the employer has (a) made payments of benefits directly to or on behalf of a retiree or beneficiary, (b) made premium payments to an insurer, or (c) irrevocably transferred assets to a trust, or an equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer(s) or plan administrator.
<b>Funded Ratio:</b>	The actuarial value of assets expressed as a percentage of the actuarial accrued liability.
<b>Healthcare Cost Trend Rate:</b>	The rate of change in per capita health claim costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.
<b>Investment Return Assumption (Discount Rate):</b>	The rate used to adjust a series of future payments to reflect the time value of money.

# Other Post Employment Benefits

Harford County Public Schools  
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Benefits Other Than Pension

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## 8. Glossary (cont.)

**Level Percentage of Projected Payroll Amortization Method:**

Amortization payments are calculated so that they are a constant percentage of the projected payroll of active plan members over a given number of years. The dollar amount of the payments generally will increase over time as payroll increases due to inflation; in dollars adjusted for inflation, the payments can be expected to remain level. This method can not be used if the plan is closed to new entrants.

**Net OPEB Obligation:**

The cumulative difference since the effective date of this Statement between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt.

**Normal Cost or Normal Actuarial Cost:**

That portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

**Other Post-employment Benefits:**

Post-employment benefits other than pension benefits. Other post-employment benefits (OPEB) include post-employment healthcare benefits, regardless of the type of plan that provides them, and all post-employment benefits provided separately from a pension plan, excluding benefits defined as termination offers and benefits.

**Pay-as-you-go (PAYG):**

A method of financing a pension plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

**Payroll Growth Rate:**

An actuarial assumption with respect to future increases in total covered payroll attributable to inflation; used in applying the level percentage of projected payroll amortization method.

**Plan Liabilities:**

Obligations payable by the plan at the reporting date, including, primarily, benefits and refunds due and payable to plan members and beneficiaries, and accrued investment and administrative expenses. Plan liabilities do not include actuarial accrued liabilities for benefits that are not due and payable at the reporting date.

## Other Post Employment Benefits

Harford County Public Schools plan of action in funding the Annual Required Contribution is as follows:

For fiscal 2010 HCPS requested funding from Harford County Government for 6.7% of the Annual Required Contribution. Due to the bleak economic outlook for fiscal 2010, this request was not funded by Harford County Government.

Harford County Public Schools will delay requesting funding from Harford County Government for 6.7% of the Annual Required Contribution in fiscal 2011 and continue the request by an additional 6.7% each year until the Annual Required Contribution is fully funded.

### **FUNDING STATUS AND PROGRESS**

As of July 1, 2008, the most recent actuarial valuation date, the plan was 2.1 percent funded. The actuarial accrued liability for benefits was \$589,795,000, and the actuarial value of assets was \$12,126,368, resulting in an unfunded actuarial accrued liability (UAAL) of \$577,658,632. The covered payroll (annual payroll of active employees covered by the plan) was \$278,038,509, and the ratio of the UAAL to the covered payroll was 207.76 percent. A new actuarial valuation is in the process of being completed as of the end of July 2010.

**A new actuarial valuation will be prepared and issued in the summer of 2010.**