Kent County Levy Court

Actuarial Valuation of the
Kent County Retiree Benefits Program
As of January 1, 2009

March 16, 2009

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March 16, 2009

Pension Review Committee
Kent County Levy Court
Kent County Administrative Complex
555 Bay Road
Dover, DE 19901

SMART Business Advisory and Consulting, LLC is pleased to present the results of this January 1, 2009 actuarial valuation of the Kent County Retiree Benefits Program ("Plan"). This report should be used to determine costs for the fiscal year ending June 30, 2009.

The purposes of this valuation are:

- to review and report the funded status of the plan under Chapter 79 Section 12 of the Kent County Code;
- serve as a guideline for contributions to be made for the fiscal year; and
- report the value of such benefits and the associated costs according to the accounting requirements of Governmental Accounting Standards Board Statement No. 45, Accounting for Pensions by State and Local Governmental Employers ("GASB 45")

The information presented in this report is based on our understanding of the provisions of the Plan and a reasonable interpretation of applicable federal and state statutes and regulations. If you have any questions or would like to discuss the results contained in the report further, please let us know.

Respectfully submitted,

Mark W Ohnsted

Mark W. Ohnsted, ASA, EA, MAAA
Actuary

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EXECUTIVE SUMMARY

Kent County Levy Court ("County") provides medical benefits to retirees who meet certain eligibility criteria when they retired. These retiree medical benefits are described under Chapter 79 of the Kent County Code ("Code") and are commonly referred to as the Kent County Retiree Benefits Program ("Plan"). This report presents the results of the actuarial valuation of the Plan for purposes of determining the contribution requirements for the year and the accounting cost for the County's financial reporting.

Contribution Requirements

Under section 12 of Chapter 79 of the Code, an actuary shall at least biennially review the Retiree Benefits Trust Fund ("Fund") and shall report to the County government whether any additional sums of money are needed to keep the Fund actuarially sound so that sufficient funds will always be available to pay the benefits provided.

The Plan's funded status has changed since the previous valuation as the table below indicates. The major reasons for the decline in the financial strength of the Plan are:

- an increase in the actuarial accrued liability from benefits accrued during 2007 and 2008;
- decrease in the market value of assets from a -10.08% investment return over the two year period from January 1, 2007 through December 31, 2008; and
- an increase in plan participants from 331 on January 1, 2007 to 373 on January 1, 2009.

	January 1, 2009	January 1, 2007
Actuarial Accrued Liabilities	$ 9,831,188	$ 8,600,000
Market Value of Assets	$ 7,047,685	$ 7,400,000
Unfunded Amount	$ 2,783,503	$ 1,200,000

In 2008 a contribution of $475,000 was made equal to the normal cost under the aggregate cost method. On the same basis the revised contribution would decrease to $383,725. The decrease in the contribution is attributable to the establishment of a Fund with a contribution of $7,362,826 in February 2007.

The County may want to consider adopting a funding policy that will amortize the unfunded amount over 30 years as is currently used for the pension plan. Based on the actuarial methods and assumptions used in this valuation and the Code in effect on January 1, 2009, the contribution determined under the current and proposed method is determined to be:

	Fiscal Year Ending	
	2010 and 2011	2008 and 2009
Current	$ 383,725	$ 475,000
Proposed	$ 630,976	$ 1,239,000

Plan Assets

Pursuant to Section 12 of Chapter 79 of the Code, the County shall establish and maintain a Fund which shall be used for the purpose of paying the benefits provided. Each year the company makes contributions to the trust, and the trust pays related expenses and benefit payments to participants. The trust also generates income from its investments that are used to help pay for the benefit payments and plan expenses in future years.

The trustee reports the market value of assets that includes the net changes in the appreciation or depreciation of the investments held. In order to smooth any temporary fluctuations in these asset values, we have employed an actuarial value of assets in determining plan costs.

Plan assets used for this valuation are:

	January 1, 2009	January 1, 2007
Market Value of Assets	$ 7,047,685	$ 0

Plan Participants

A file of employee data was provided to us by the County which contained basic indicative, compensation and employment information for each employee. An audit of the data was not made. However, a thorough check of data was done, reconciling last year's data with the new data. This data was checked for internal consistency and for consistency with last year's data. Information regarding plan participants is shown below.

	January 1, 2009	January 1, 2007
Active	279	250
Retired	94	81
Total	373	331

Actuarial Certification

This report presents the results of the actuarial valuation of the Kent County Retiree Benefits Program.

The purposes of this valuation are to provide:

- to review and report the funded status of the plan under Chapter 79 Section 12 of the Kent County Code;
- serve as a guideline for contributions to be made for the fiscal year; and
- report the value of such benefits and the associated costs according to the accounting requirements of Governmental Accounting Standards Board Statement No. 45, Accounting for Pensions by State and Local Governmental Employers ("GASB 45")

In conducting the valuation, we have relied on personnel, plan design, and asset information supplied by the Kent County Levy Court. While we cannot verify the accuracy of all this information, the supplied information was reviewed for consistency and reasonableness. As a result of the review, we have no reason to doubt the substantial accuracy of the information and believe that it has produced appropriate results.

In our opinion, all calculations and procedures are in conformity with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board. In addition, the results comply with the requirements of the applicable Statements of Financial Accounting Standards and the Internal Revenue Code including the economic and demographic assumptions used which are based on plan experience and reflect the economic market conditions as appropriate.

We are available to answer any questions regarding this material or to provide explanations and further details, as may be appropriate. The undersigned meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.

Robert L. Cohen

Robert L. Cohen, FSA, EA, MAAA

Mark W. Ohnsted

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Under section 12 of Chapter 79 of the Code, an actuary shall at least biennially review the pension fund and shall report to the County government whether any additional sums of money are needed to keep the pension found actuarially sound so that sufficient funds will always be available to pay the benefits provided.

In this section we determine the contribution requirements to the trust based on the results of the actuarial valuation.

The cost method historically used to determine the funded status of the Plan and the annual contribution requirements is the Aggregate Actuarial Cost Method. Under this cost method, the unfunded portion of the total projected liability is amortized as a level dollar amount over the remaining service lifetimes of the active participants.

The amount allocated to the current year is the normal cost and is determined as follows:

Normal Cost as of January 1

		2009	2007[1]
1.	Actuarial Present Value of Future Benefits		
	A. Retirees	$ 4,216,699	$ 3,600,000
	B. Active	9,040,911	7,900,000
	C. Total	$ 13,257,690	$ 11,500,000
2.	Market Value of Assets	7,047,685	0
3.	Actuarial Present Value of Future Normal Costs	6,210,005	11,500,000
4.	Normal Cost	$ 383,725	$ 475,000

The establishment of a fund to offset the liabilities of the plan will generate an unfunded liability that should be amortized over a specified period. The unfunded liability is determined as the difference between the actuarial accrued liability determined under the cost method and the market value of assets. This amount is amortized and added to the normal cost to determine the recommended contribution.

Recommended Contribution

	2009	2007[2]
Normal Cost	$ 383,725	$ 475,000
Normal Cost and Immediate Funding of Unfunded Liability	$ 3,167,228	$ 9,075,000
Normal Cost and 5 Year Amortization of Unfunded Liability	$ 1,080,871	$ 2,629,000
Normal Cost and 20 Year Amortization of Unfunded Liability	$ 667,231	$ 1,351,000
Normal Cost and 30 Year Amortization of Unfunded Liability	$ 630,976	$ 1,239,000

[1] Determined by Aon Consulting
[2] When not provided in Aon report, results were estimated by SMART

The benefits under the Plan are funded by contributions regularly made to the Trustee. The Trustee holds and invests the accumulated monies and disburses from the fund any benefits that become payable upon retirement, death or termination of employment.

The Market Value of assets is presented below.

Market Value of Assets

	12/31/2008	12/31/2006
Cash in Interest Bearing Accounts & Receivables	$ 7,047,685	$ 0

This actuarial valuation is based on participation data provided by the County. Participation in the Plan is based on Section 3 Chapter 83 of the Code and includes current employees of the County who satisfy eligibility requirements for participation in the Plan and former employees who are receiving or are entitled to receive a benefit under the Plan.

The Plan participants included in this valuation is described below.

Plan Participants

		January 1, 2009	January 1, 2007
1.	Active Employees	279	250
2.	Retired	94	81
3.	Total Participants	373	331

The assumptions and methods displayed in this section were selected from the complete set of assumptions used to calculate liabilities for the plan. Kent County Levy Court has reviewed the assumptions and recommended to the actuary that they be used.

A. Discount Rate

The rate used to discount liabilities is 8.00%.

B. Trend Rate

The healthcare trend assumption reflects healthcare cost inflation expected to impact the plan based on forecast information in published papers from industry experts (actuaries, health economists, etc.).

Fiscal Year End	Medical Trend
2009	6.00%
2010	5.00%
2011	5.00%
2012	5.00%
2013	5.00%
2014	5.00%
2015 and beyond	5.00%

C. Mortality

Mortality assumptions use the RP-2000 Combined Healthy table.

D. Morbidity

Expected medical claims are assumed to increase 2%, on average, as participant's age.

E. Marriage

20% of active employees were assumed married. If spouse date of birth was not provided females were assumed to be 3 years younger than males.

F. Salary Scale

Compensation was assumed to increase 5% per annum.

G. Cost Method

The Aggregate Actuarial Cost Method for funding purposes and the Unit Credit cost method for accounting purposes.

H. Data Assumptions

1. New Retiree Elections, Medical Coverage

It is assumed that new retirees select coverage consistent with their active election, and are assumed to participate in Medicare.

2. Amortization Period

The period selected for amortizing the unfunded actuarial liability in determining the ARC is the maximum limit of 30 years. Amortization reflects a closed, level dollar method.

I. Mortality Rates

Mortality for the valuation is the RP-2000 Combined Healthy Table. Disabled participants set rates forward 10 years. Select mortality rates are listed below.

Mortality Assumptions		
	Base Rates	
Age	**Male**	**Female**
20	0.00035	0.00019
25	0.00038	0.00021
30	0.00044	0.00026
35	0.00077	0.00048
40	0.00108	0.00071
45	0.00151	0.00112
50	0.00214	0.00168
55	0.00362	0.00272
60	0.00675	0.00506
65	0.01274	0.00971
70	0.02221	0.01674
75	0.03783	0.02811
80	0.06437	0.04588
85	0.11076	0.07745
90	0.18341	0.13168
95	0.26749	0.19451
100	0.34456	0.23747
105	0.39789	0.29312
110	0.40000	0.36462
115	0.40000	0.40000
>=120	1.00000	1.00000

J. Disability Rates

Disability for the valuation is based on the 1977 Reports of the Society of Actuaries. Select disability rates are listed below.

Disability Assumptions		
	Base Rates	
Age	Male	Female
20	0.00077	0.00077
25	0.00077	0.00077
30	0.00091	0.00091
35	0.00116	0.00116
40	0.00203	0.00203
45	0.00358	0.00358
50	0.00617	0.00617
55	0.01075	0.01075
60	0.01397	0.01397
65	0	0

K. Retirement Rates

Select retirement rates per 100 are listed below.

Retirement Assumptions		
	Base Rates	
Age	Male	Female
55	10	10
56	0	0
57	0	0
58	0	0
59	0	0
60	10	10
61	10	10
62	20	20
63	10	10
64	10	10
65	100	100

K. TERMINATION RATES

Termination rates for the valuation are based on Table T-5 as set forth by the Actuaries Pension Handbook. Select termination rates per 100 are listed below:

Termination Assumptions		
	Base Rates	
Age	**Male**	**Female**
20	7.94	7.94
25	7.72	7.72
30	7.22	7.22
35	6.28	6.28
40	5.15	5.15
45	3.98	3.98
50	2.56	2.56
55	0.94	0.94
60	0.09	0.09
65	0.00	0.00

The following summary of plan provisions represents our understanding of Article 1 Section 79 of the Code of Kent County referred to as the Kent County Retiree Benefits Program.

Employees who retire from the County may be eligible for pension benefits pursuant to the provisions below.

Covered Employee	An employee with Kent County who receives a regular salary directly from Kent County and receives or is eligible to receive County paid benefits including the following: ➢ Elected officials of Kent County; ➢ Board of Assessment members; and
Service	Regular employment as a covered employee with Kent County for more than 1,800 hours in any calendar year. If a covered employee had similar employment with New Castle County, Sussex County of the State of Delaware prior to June 27, 1986, such years of service shall be recognized and included for pension benefits, provided that such covered employee by Kent County on or before June 27, 1986.
Medical Benefit	Kent County provides medical coverage to retirees that satisfy the eligibility conditions.
Eligibility	➢ A Covered Employee retiring from active service with a County pension; or ➢ A Covered employee achieving the Rule of 70 (age plus years of Service equals 70 or more)’
Plan Type	Fully insured plan offered through Blue Cross Blue Shield of Delaware, Inc.: ➢ PPO ➢ HMO ➢ HMO (low cost)
Employee Cost	The County pays for the full cost for individual coverage for the retiree.
Dependent Coverage	Dependents are covered. Retiree pays for 40% of any dependent coverage. For retirees in programs

	that cost less than the PPO Option, the difference is used to offset the cost of beneficiary coverage.
Normal Retirement	Age 62 with 5 years of Service.
Early Retirement	A Covered Employee may retire prior to age 62 upon satisfying: ➢ Any age and 30 years of Service, or ➢ Age 55 and 20 years of Service, or ➢ Age 60 and 15 years of Service.
Disability	A Covered Employee who shall become disabled while in Covered Employment and covered under County-provided long-term disability insurance shall be considered as remaining in Covered Employment until they retire or the cessation of disability insurance if earlier.