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Kent County Levy Court

Actuarial Valuation of the Kent County Retiree Benefits Program As of January 1, 2011

February 16, 2011

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

SMART Business Advisory and Consulting, LLC (a wholly owned subsidiary of LECG, LLC) is pleased to present the results of this January 1, 2011 actuarial valuation of the Kent County Retiree Benefits Program ("Plan"). This report should be used to determine costs for the fiscal year ending December 31, 2011.

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 Postemployment Benefits Other than 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,

Robert L. Cohen, FSA, MAAA, CFA	Carl R. Mowery
Senior Manager	Managing Director

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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 assets will always be available to pay the benefits provided.

The cost method historically used to determine the funded status of the Plan and the annual contribution requirements was the Aggregate Cost Method; however, beginning with 2011, the Projected Unit Credit Actuarial Cost Method is utilized. Projected Unit Credit is consistent with the method used for the Pension Plan of Kent County. It is an individual type cost method that directly defines an actuarial accrued liability and normal cost. In addition, Projected Unit Credit is consistent with the method mandated for financial disclosure of private sector obligations for other postemployment benefits.

The Plan's funded status has improved since the previous valuation as the table below indicates, due in large part to large asset gains.

		January 1, 2011		January 1, 2009
Actuarial Accrued Liabilities	$	11,197,634	$	9,831,188
Market Value of Assets		9,705,468		7,047,685
Unfunded Amount	$	1,492,166	$	2,783,503

Based on the actuarial methods and assumptions used in this valuation and the Code in effect on January 1, 2011, the contribution determined under the Projected Unit Credit method is determined to be:

		January 1, 2011		January 1, 2009
Proposed Contribution	$	661,025	$	630,976

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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, 2011	January 1, 2009
Market Value of Assets	$ 9,705,468	$ 7,047,685

Plan Participants

A file of employee data was provided by the County which contained basic indicative, compensation and employment information for each employee. While an audit of the data was not made, a thorough check was done, reconciling the prior valuation data with the new data. This data was checked for internal consistency and for consistency with the prior year. A full summary of participant information is shown in Section V.

Plan Participants

		January 1, 2011	January 1, 2009
1.	Active Employees	275	279
2.	Retirees	116	94
3.	Total Participants	391	373

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, MAAA

Under section 12 of Chapter 79 of the Code, an actuary shall at least biennially review the Retiree Benefits Trust 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 assets 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.

Normal Cost

The cost method historically used to determine the funded status of the Plan is the Aggregate Cost Method. Consistent with the pension plan, a change has been made to the Projected Unit Credit Actuarial Cost Method. Under this method the normal cost is a direct allocation to the current year of the present value of projected benefits for each active participant in the Plan.

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

			January 1, 2011		January 1, 2009
1.	Actuarial Present Value of Future Benefits				
	A. Retirees	$	6,122,352	$	4,216,699
	B. Active		9,994,032		9,040,911
	C. Total	$	16,116,384	$	13,257,690
2.	Market Value of Assets		9,705,468		7,047,685
3.	Actuarial Present Value of Future Normal Costs		n/a		6,210,005
4.	Normal Cost	$	528,480	$	383,725

Range of Contributions

The annual contribution is comprised of the normal cost plus an amortization of the unfunded actuarial accrued liability amortized over a period of years.

The table below displays the County's contribution under four scenarios ranging from an immediate payment of the unfunded liability to a 30 year amortization of the unfunded liability.

Recommended Contribution

		2011		2009
Normal Cost	$	528,480	$	383,725
Normal Cost and Immediate Funding of Unfunded Liability	$	2,020,646	$	3,167,228
Normal Cost and 5 Year Amortization of Unfunded Liability	$	902,203	$	1,080,871
Normal Cost and 20 Year Amortization of Unfunded Liability	$	680,460	$	667,231
Normal Cost and 30 Year Amortization of Unfunded Liability	$	661,025	$	630,976

Historically, the County has adopted a funding policy that amortizes any unfunded liability over a 30 year period. Based on the actuarial methods and assumptions used in this valuation and the Code in effect on January 1, 2011, the recommended contribution is determined to be $661,025.

The following exhibits show the Annual Required Contribution (ARC), Annual OPEB Cost (AOC), and projected June 30, 2009 Net OPEB Obligation (NOO), assuming the accounting standard was first adopted for the 2009 Fiscal Year.

The Projected Unit Credit cost method is used for GASB 45 reporting. Under this cost method, the total value of benefits for each individual is allocated over their period of employment with the County. The summary below presents the results of the actuarial valuation for GASB 45 reporting purposes.

		January 1, 2011		January 1, 2009
Present Value of Future Benefits				
Actives	$	9,994,032	$	9,040,911
Retirees		6,122,352		4,216,699
Total	$	16,116,384	$	13,257,690
Actuarial Accrued Liability				
Actives	$	5,075,282	$	5,614,489
Retirees		6,122,352		4,216,699
Total	$	11,197,634	$	9,831,188
Plan Assets		9,705,468		7,047,685
Unfunded Liability	$	1,492,166	$	2,783,503
Normal Cost	$	528,480	$	383,725

Development of Annual Required Contribution

GASB 45 sets the method for determining the County's retiree medical benefits accrual. The Annual Required Contribution (ARC) is comprised of the value of benefits earned during the year (Normal Cost) and a supplemental cost based on an amortization of the Unfunded Actuarial Accrued Liability. Accordingly, the following table shows the County's ARC based on a 30-year amortization of the Unfunded Actuarial Accrued Liability as a level dollar amount:

		2011		2009
Preliminary ARC				
Normal Cost	$	528,480	$	383,725
Amortization of Unfunded Liability		132,545		247,251
Beginning of Year Contribution	$	661,025		630,976
Interest on Contributions		0		0
Preliminary ARC	$	661,025	$	630,976
ARC Reflecting Maximum Amortization Period				
Normal Cost	$	528,480	$	383,725
Unfunded Liability		1,492,166		2,783,503
Amortization of Unfunded Liability (maximum period)		132,545		247,251
Beginning of Year Contribution		661,025		630,976
Interest on Contributions		0		0
Minimum ARC	$	661,025	$	630,976
Annual Required Contribution (ARC)	$	661,025	$	630,976

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Development of Annual OPEB Cost

The following table shows the County's Annual OPEB Cost for the 2011 Fiscal Year.

		2011		2009
Annual Required Contribution (ARC)	$	661,025	$	630,976
Interest on Net OPEB Obligation		0		0
Adjustment to Annual Required Contribution		0		0
Total Annual OPEB Cost (AOC)	$	661,025	$	630,976

Development of Net OPEB Obligation

The following table shows an estimated development of the County's Net OPEB Obligation as of the end of the Fiscal Year.

		2011		2009
Net OPEB Obligation at Beginning of Year	$	0	$	0
Annual OPEB Cost		661,025		630,976
Annual Employer Contributions		661,025		630,976
Net OPEB Obligation at End of Year	$	0	$	0

Schedule of Funding Progress

GASB 45 paragraph 26(a) requires the following elements to be listed in the report. Below is the projected schedule of funding progress:

Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
1/1/2009	$7,047,685	$9,831,188	$2,783,503	71,7 %	n/a	n/a
1/1/2011	$9,705,468	$11,197,634	$1,492,166	86,7 %	n/a	n/a

25-Year Payout Projection

Annual payments expected based on the current census (i.e. a closed group projection) and actuarial assumptions detailed in Assumptions and Methods:

25-Year Payout Projection			
Fiscal Year Beginning July 1	**Employer Contribution**	**Active Headcount**	**Retiree Headcount**
2011	$693,853	275.00	116.00
2012	683,931	255.94	120.36
2013	724,883	240.26	122.98
2014	751,232	224.33	127.80
2015	804,785	211.21	130.36
2016	847,611	197.05	135.11
2017	915,610	184.31	138.77
2018	981,864	172.38	141.99
2019	1,057,121	157.95	148.61
2020	1,155,062	145.64	153.04
2021	1,238,183	133.52	157.51
2022	1,312,149	121.26	162.35
2023	1,400,322	110.64	165.44
2024	1,498,056	98.98	169.87
2025	1,601,019	86.10	175.86
2026	1,700,470	79.38	174.54
2027	1,783,455	70.24	176.15
2028	1,874,116	60.62	178.38
2029	1,945,884	53.16	178.02
2030	2,024,346	46.76	176.39
2031	2,067,442	41.22	173.73
2032	2,114,716	34.68	172.23
2033	2,144,407	30.88	167.44
2034	2,174,753	27.02	162.73
2035	2,207,040	23.54	157.52

Plan Assets

The benefits under the Plan are funded by contributions regularly made to the Fund. The Trustee holds and invests the accumulated monies and disburses from the Fund any benefits that become payable upon retirement.

The market value of assets is presented below.

Market Value of Assets				
		12/31/2010		12/31/2008
Market Value of Assets	$	9,705,468	$	7,047,685

Plan Participants

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 number of Plan participants included in this valuation is described below.

Plan Participants

		January 1, 2011	January 1, 2009
1.	Active Employees	275	279
2.	Retirees	116	94
3.	Total Participants	391	373

Data reconciliation between the current and prior valuation dates is shown below.

	Actives	**Retirees**	**Total**
At 1/1/2009	**279**	**94**	**373**
Changes Due to:			
New Entrants	35	0	35
Retired	(25)	28*	3
Terminations	(14)	0	(14)
Died	0	0	0
Data Change	0	(6)	(6)
Total Change	**(4)**	**22**	**18**
At 1/1/2011	**275**	**116**	**391**

* This total includes retirees who elect to enroll their spouses in coverage as well. Total retiree counts displayed throughout this report include retirees and any covered spouses.

Assumptions and Methods

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 nominal rate used to discount liabilities is 8.0%.

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
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 the same age as males.

F. Salary Scale

Compensation was assumed to increase 3.5% per annum.

G. Cost Method

The Projected Unit Credit Cost Method.

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.

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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 to the right.

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 Reports of the Society of Actuaries.
Select disability rates are listed to the right:

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 are listed to the right:

Retirement Assumptions		
	Base Rates	
Age	Male	Female
55	0.10000	0.10000
56	0.00000	0.00000
57	0.00000	0.00000
58	0.00000	0.00000
59	0.00000	0.00000
60	0.10000	0.10000
61	0.10000	0.10000
62	0.20000	0.20000
63	0.10000	0.10000
64	0.10000	0.10000
65	1.00000	1.00000

K. Termination Rates

Ultimate termination rates for the valuation are based on Table T-5 as set forth by the Actuaries Pension Handbook. Termination rates in the first four years of an employee's service are taken as a multiple of Table T-5. Select termination rates by age and period of service are listed below:

Termination Assumptions					
	Years of Service				
Age	1	2	3	4	5+
20	0.15877	0.13892	0.11908	0.09923	0.07938
25	0.15448	0.13517	0.11586	0.09655	0.07724
30	0.14444	0.12638	0.10833	0.09027	0.07222
35	0.12553	0.10984	0.09415	0.07846	0.06276
40	0.10301	0.09013	0.07726	0.06438	0.05150
45	0.07951	0.06957	0.05963	0.04969	0.03975
50	0.05125	0.04485	0.03844	0.03203	0.02563
55	0.01879	0.01644	0.01409	0.01174	0.00939
60	0.00180	0.00158	0.00135	0.00113	0.00090
65	0.00000	0.00000	0.00000	0.00000	0.00000

Plan Provisions

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
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
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	**Employees Hired On or Before June 29, 2010** Age 62 with 5 years of Service **Employees Hired After June 29, 2010** Age 62 with 8 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

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- 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.