City of Cortland

GASB 45 Other Post-employment Benefits

Interim Actuarial Valuation for Fiscal

Year Ending December 31, 2015

Prepared by:

Armory Associates, LLC
Actuarial Consulting Group

Ph: 315-752-0060
Fax: 315-752-0057
120 Walton Street, Suite 601
Syracuse, NY 13202

ARMORY ASSOCIATES, LLC
Actuarial Consulting Group

November 4, 2015

Mr. Mack Cook
Director of Administration and Finance
City of Cortland
City Hall
25 Court Street
Cortland, New York 13045

Re: Retiree Medical Expense and Liability Calculations under GASB No. 45

Dear Mr. Cook:

We previously prepared a valuation of the City's retiree medical benefits as of January 1, 2014. That valuation was completed for the purpose of determining the obligation and cost in accordance with the Governmental Accounting Standard No. 45 (GASB), **Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions**, for the Fiscal Year ending December 31, 2014. This report was completed by Armory Associates to be in compliance with GASB 45 based on our understanding of the plan provisions and does not attempt to offer any accounting opinion or advice.

GASB 45 states that plan sponsors with more than 200 members must complete an actuarial valuation at least biennially, allowing the results of the actuarial valuation to be utilized for multiple years. An interim report is allowed as long as there have not been significant material changes since the actuarial valuation was completed.

This interim year report provides the information needed to comply with GASB 45 for the Fiscal Year ending December 31, 2015. Based on the information provided to us by the City, it is our opinion that an interim valuation report utilizing the results of the prior full actuarial valuation would satisfy the GASB 45 requirements. However, your external auditor has the final decision regarding whether any updates are needed. The information in this interim report includes, but not limited to, the following information:

- Actuarial Accrued Liability (AAL)
- Annual Required Contribution (ARC)
- Annual OPEB Cost (AOC)
- Projected Net OPEB Obligation (NOO)
- 20-Year Cash Flow Projections
- Summary of Plan Provisions

The results presented in this report are based on the employee data, methods and assumptions described in the actuarial valuation report completed for the Fiscal Year ending December 31, 2014. We will need to perform a new valuation as of January 1, 2016 to determine the ARC for the Fiscal Years ending December 31, 2016 and December 31, 2017.

Ph: 315-752-0060
Fax: 315-752-0057
120 Walton Street, Suite 601
Syracuse, NY 13202

Please keep in mind that future actuarial valuation results may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions, changes in economic or demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law.

I, the undersigned, am a Consulting Actuary for Armory Associates, LLC, am a member of the American Academy of Actuaries and meet the Qualification Standards of the Academy to render the actuarial opinion contained herein. To the best of my knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principals which are consistent with the principles prescribed by the Actuarial Standards Board and the Code of Professional Conduct and Qualification Standards for Public Statements of Actuarial Opinion of the American Academy of Actuaries.

Respectfully submitted,

Damon R. Hacker, ASA, MAAA
Executive Vice President
Armory Associates, LLC

TABLE OF CONTENTS

SECTION 1: EXECUTIVE SUMMARY

City of Cortland provides medical and prescription drug insurance benefits for retirees, spouses, and their covered dependents while contributing a portion of the expenses. Such postemployment benefits are an included value in the exchange of salaries and benefits for employee services rendered. An employee's total compensation package includes not only the salaries and benefits received during active service, but all compensation and benefits received for their services during postemployment. Nevertheless, both types of benefits constitute compensation for employee services.

Based on GASB 45 guidelines an employer with more than 200 participants must complete a full actuarial valuation at least biennially. However, a new valuation is required if significant changes have occurred since the previous actuarial valuation. City of Cortland has chosen to do biennial valuations, therefore, the contents of this interim valuation is based on the Annual Required Contribution (ARC) from the January 1, 2014 Actuarial Valuation. The summary below identifies the value of the postemployment health care benefits for the fiscal year ending December 31, 2015:

City of Cortland
Postretirement Health Care Benefits Program
For Fiscal Year Ending December 31, 2015
Actuarial Accrued Liability and Annual OPEB Cost

Actuarial Accrued Liability (AAL)	
Retirees & Dependents	$35,236,620
Actives	27,712,446
Deferred Vesteds	0
Total Actuarial Accrued Liability	**$62,949,066**
Additional Obligation attributable to future service	34,308,008
Present Value of Total Future Liability	**$97,257,074**

Annual Required Contribution (ARC)	
Normal Cost for Fiscal Year	$2,315,871
Amortization of Unfunded Actuarial Accrued Liability	4,237,042
Annual Required Contribution (ARC)	**$6,552,913**

Annual OPEB Cost	
Annual Required Contribution (ARC)	$6,552,913
Interest on Net OPEB Obligation	900,332
Adjustment to Annual Required Contribution	(1,456,743)
Annual OPEB Cost	**$5,996,502**

Net OPEB Obligation	
Net OPEB Obligation - beginning of year	$22,508,299
Annual OPEB Cost	5,996,502
Expected Employer Contributions	(1,258,750)
Expected Net OPEB Obligation - end of year	**$27,246,051**

* These projections are based on the results of the January 01, 2014 valuation using a discount rate of 4%.

SECTION 2: INTRODUCTION

Armory Associates, LLC is very pleased to be working with City of Cortland. City of Cortland contracted with Armory Associates, LLC to assist in the determination of the present liability for postemployment medical insurance costs for the entire medical plan membership of City of Cortland. This analysis has been completed in accordance with GASB Statement No. 45; Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions.

One of the most important foundational concepts to keep in mind throughout this analysis is that postemployment liabilities are being impacted by the fact that people are retiring earlier in life and living longer lives. With the average retirement age being approximately fifty-five (55) years old in the public sector and with people routinely living into their nineties (90's), employers are having to utilize a greater portion of their operating budget each year to account for the extending periods of time in which benefit expenses are incurred.

The motives behind such identification and funding of this liability is threefold:

- It is prudent that your business' annual budget recognizes the future financial obligations and/or liabilities associated with all benefits promised to both employees and retirees;

- Awareness of the expected liabilities prevents future budgets from being overburdened with the financial obligations associated with the cost of retiree benefits; and

- A sufficient system for funding postemployment benefits safeguards retirees in the unlikely event that the employer becomes no longer a viable entity.

The goal of this process is not necessarily to fund the liability today, but rather to accurately identify the liability and establish a plan to effectively and efficiently manage the liability over time. This process will prepare City of Cortland for the financial impact associated with the pressures of providing sufficient postemployment benefits to the employees and retirees.

Armory Associates, LLC will be available to answer all questions regarding this report or any other issues concerning City of Cortland. Should you have any additional questions regarding the information contained herein, please feel free to contact us at our offices by phone at (315) 752-0060.

We would like to thank City of Cortland for this opportunity to serve as your consultant and we look forward to continuing a mutually beneficial relationship for many years to come.

SECTION 3: 20-YEAR PAYOUT PROJECTION

The table below is a 20-year pay-as-you-go cash flow projection from last year's full actuarial valuation for the OPEB plan and does not include the cost of benefits for currently employed members. The projections are broken down into current retiree cost projections and future retiree cost projections. For purposes of this interim valuation, the 2014 and 2015 pay-as-you-go cost was used as the expected employer contributions.

20-Year Pay-As-You-Go Projection

Fiscal Year Ending	Total
2014	$1,223,668
2015	$1,258,750
2016	$1,318,070
2017	$1,419,944
2018	$1,522,886
2019	$1,618,419
2020	$1,684,460
2021	$1,795,980
2022	$1,952,663
2023	$2,106,957
2024	$2,252,870
2025	$2,402,952
2026	$2,575,041
2027	$2,755,382
2028	$2,953,286
2029	$3,153,108
2030	$3,346,828
2031	$3,590,197
2032	$3,844,678
2033	$4,069,223

SECTION 4: PLAN PROVISIONS

Health Plans: The City provides medical coverage through a plan provided through the Greater Tompkins County Municipal Health Insurance Consortium (GTCMHIC). The plan is provided to all pre-65 members and all post-65 members except Medicare-eligible PBA members hired after January 1, 2014 and future Medicare-eligible SEIU retirees, who receive separate post-65 medical coverage described below. Additionally, no post-65 coverage is provided to PWOA retirees. A summary of the GTCMHIC health plan is as follows:

Post-Employment Medical Plan Summary	
Deductible	$50/$150
Coinsurance	20% until OOP maximum, deductible excluded
Out of Pocket Maximum	$2,000
Inpatient Hospitalization	Paid in Full
Outpatient Services	Paid in Full
Office Visits	Paid in Full
Emergency Room	Paid in Full
Lifetime Maximum	$0
Prescription Drugs:	$10/$25/$40

As indicated above, certain members will be required to enroll in a separate Medicare Supplement plan also provided through the GTCMHIC. The Consortium carries Medicare Supplement coverage with six different options for prescription drug coverage. Highlights of the plan include:

- Medicare Part A deductibles and copays covered for most services.
- Medicare Part B deductibles and coinsurance covered for inpatient and outpatient surgery, and physician and diagnostic office visits.
- 80% coverage after $250 deductible for emergency care in a foreign country.
- Choice of five different prescription drug coverages (30 day copays listed): $5/$15/$30, $10/$25/$40, $15/$30/$45, 20%/20%/40%, 20%/30%/50%. Retiree can also opt out of prescription drug coverage.

Premium Rates: The following medical premium equivalent rates are effective January 1, 2014 & January 1, 2015 and are set by the Greater Tompkins County Municipal Health Insurance Consortium. The premium equivalent rates are calculated based on the pooled experience and demographics of all participating employers.

2014 Monthly Medical Premium Equivalent Rates	
Pre-65	
Individual	Family
$738.94	$1,601.64
Post-65	
Rx Option	Premium
No Rx	$215.00
$5/$15/$30	$710.96
$10/$25/$40	$548.06
$15/$30/$45	$442.40
20%/20%/40%	$463.44
20%/30%/50%	$440.51

2015 Monthly Medical Premium Equivalent Rates	
Pre-65	
Individual	Family
$775.89	$1,681.72
Post-65	
Rx Option	Premium
No Rx	$225.75
$5/$15/$30	$746.51
$10/$25/$40	$575.47
$15/$30/$45	$464.52
20%/20%/40%	$486.61
20%/30%/50%	$462.53

Retiree Eligibility & Contribution Requirements

All active employees and retirees are subject to the eligibility and contribution requirements set forth by their respective employee groups as follows:

SEIU

Total Members: 25 (16 Actives, 9 Retirees)

Eligibility: All members hired prior to January 1, 2015 must attain a minimum age of 62 and provide a minimum of 15 years of service to the City to be eligible for postemployment benefits. All members hired on/after January 1, 2015 must attain a minimum age of 62 and provide a minimum of 30 years of service to the City to be eligible for postemployment benefits.

Contributions:

Retiree: Retirees pay the same contribution percentage rate in effect at the time of their retirement for either individual or family coverage if they have at least 250* sick days accumulated at the time of retirement; otherwise they are responsible for 100% of the premium. The contribution rate for 2014 is 11% and is assumed to remain at this rate for all future years.

Surviving Spouse: Surviving spouses will pay the same contribution percentage rate as the retiree.

Length of Coverage: Lifetime

Medicare Part B: The City does not pay for Medicare Part B coverage.

*** Please note that for purposes of this valuation and from discussions with the Client it was assumed that an employee would accrue at least 250 sick days at the time of their retirement if they had at least 15 years of continuous service.**

CSEA (and NON)

Total Members: 61 (32 Actives, 29 Retirees)

Eligibility: Must retire from the City as a member of the NYS Employee Retirement System to be eligible for the City's post-employment health plan. (For purposes of this valuation it was assumed that future retirees will attain a minimum age of 55 before retiring).

Contributions: Contributions for future retirees are dependent on both the years of service provided and by the number of unused sick days remaining at the time of retirement. The current contribution for active employees is set at 18% of the premium for individual or family coverage, and it is assumed for this valuation that the contribution level will remain at 18% for all future years.

All future retirees who provide a minimum of twenty (20) years of service to the City are subject to the following policy when determining their future contribution level:

1. Employees with less than 275 days of accumulated sick leave shall pay the contribution rate in effect at the time of retirement.
2. Employees with 275 days of accumulated sick leave shall pay the contribution rate in effect at the time of retirement less 1%.
3. Employees with 300 days of accumulated sick leave shall pay the contribution rate in effect at the time of retirement less 2%.
4. Employees with 325 days of accumulated sick leave shall pay the contribution rate in effect at the time of retirement less 3%.
5. Employees meeting the criteria above with accumulated sick days above the applicable threshold may convert the excess sick leave to help pay their premium contribution in retirement. Accumulated days in excess of the threshold will be converted into a cash amount at their hourly rate of pay and held by the City to apply towards the contribution.
6. The City provides a retirement incentive to any employee who, as of January 1, 2013, who is at least 62 years of age and has provided at least 10 years of service to the City. The City will allow any eligible member to contribute at the rate established in the prior agreement if they retire before December 31, 2015. It has been assumed for this valuation that no members will participate in this incentive.
7. Employees with less than twenty (20) years of service who retire are responsible for contributing 100% of the premium for individual or family coverage.

(cont.)

For the purposes of this valuation, future retiree contribution amounts were assumed to be a factor of the number of years of service provided at the time of retirement. Future retirees are assumed to accumulate one sick day per month of service.

Years of Service	Assumed Contribution
<20	100%
20-24	18%
25-29	17%
30+	15%

Surviving spouses will pay the same contribution percentage rate as the retiree.

Length of Coverage: Lifetime.

Medicare Part B: The City does not pay for Medicare Part B coverage.

IAFF

Total Members: 84 (37 Actives, 47 Retirees)

Eligibility: Must retire from the City as a member of the NYS Police and Fireman's Retirement System to be eligible for the City's post-employment health plan.

Contributions*:

Retiree: Future retirees will pay the same contribution percentage rate in effect at the time of their retirement for either individual or family coverage which is currently 18% if they have at least 325 accumulated sick days at retirement.

Anyone retired during 2005 or 2006 with 300 accumulated sick days has the option to receive 100% coverage for 60 months and then pay 16% for the remainder of coverage after 60 months has ended. If they don't choose this option they then pay 12%.

Bargaining unit members who retiree during 2007-2012 and who have at least 325 sick leave days upon retirement shall qualify for the following:

- If retired in 2007 the retire pays 11% of the premium.
- If they retire in 2008, 2009, or 2010 they pay 12% of the premium.
- If they retire in 2011-2012 they pay 16% of the premium.

Surviving Spouse: Surviving spouses will pay the same contribution percentage rate as the retiree.

Length of Coverage: Lifetime

Sick Bank: The sick bank can be used to pay the retiree's share of the premium and is based on the number of sick days accumulated and the employee's daily rate at the time of retirement.

Retirees with 325 or more accumulated sick days may convert their excess sick leave at one for one to pay for medical coverage or cash out at one for two. If they have less than 325 sick days they will have to pay 100% of the premium once their sick leave bank is exhausted. The sick leave bank is calculated by multiplying the number of sick days at retirement by the daily rate at the time of retirement. The sick leave bank is then used to pay the retirees share of the premium until it is exhausted.

Medicare Part B: The City does not pay for Medicare Part B coverage.

Disability Retirement: If an employee becomes disabled due to an on duty, or duty related illness/injury and the employee receives a disability retirement under any of the applicable sections of the NYS Social Security and Retirement Law, the City will provide 100% single health insurance coverage for the employee until age 62.

*** Please note that for purposes of this valuation and from discussions with the Client it was assumed that an employee would accrue at least 325 sick days at the time of their retirement if they had at least 20 years of continuous service.**

PBA

Total Members: 69 (44 Actives, 25 Retirees)

Eligibility: Must retire from the City as a member of the NYS Police and Fireman's Retirement System to be eligible for the City's post-employment health plan.

Contributions*:

Retiree: Current retirees pay a percentage of either the individual or family premium for life based on the contract in agreement at the time of their retirement. Members who retired between January 1, 2006 & December 31, 2008 and earned paid-up for life benefits contribute 10% of the applicable premium.

Members who retire with less than 180 unused sick days must pay 50% of premiums for the duration of coverage.

Members who retire with 250 or more unused sick days will contribute the same percentage of the premium for the duration of coverage. The current contribution percentage is 16% of the premium for individual or family coverage, and it has been assumed for this valuation that it will stay at 16% for all future years.

Surviving Spouse: Surviving spouses will pay the same contribution percentage rate as the retiree.

Length of Coverage: Eligible retirees receive lifetime coverage for the retiree and spouse.

Medicare Part B: The City does not pay for Medicare Part B coverage.

Disability Retirement: If an employee becomes disabled due to an on duty, or duty related illness/injury and the employee receives a disability retirement under any of the applicable sections of the NYS Social Security and Retirement Law, the City will provide 100% lifetime health insurance coverage for individual or family coverage. Note that members currently retired due to a disability will still have coverage terminated at age 62 per the old PBA contract.

*** Please note that for purposes of this valuation and from discussions with the Client it was assumed that an employee would accrue at least 250 sick days at the time of their retirement if they had at least 20 years of continuous service.**

PWOA (Wastewater Treatment)

Total Members: 11 (11 Actives, 0 Retirees)

Eligibility: Must retire from the City as a member of the NYS Employee Retirement System to be eligible for the City's post-employment health plan. (For purposes of this valuation it was assumed that future retirees will attain a minimum age of 55 before retiring).

Contributions*:

Retiree: Members hired prior to January 1, 2014 will contribute the same percentage in retirement that was in effect on the day of retirement. The contribution rate for 2014 is 20% and is assumed to remain at this rate for all future years. Employees who have 325 or more unused sick days may use the cash value of these days (maximum of 325 days, all days must be surrendered) to assist in meeting their contribution.

Members hired after January 1, 2014 must contribute 100% of the premium for individual or family coverage.

Surviving Spouse: Surviving spouses will pay the same contribution percentage rate as the retiree.

Length of Coverage: Until Medicare eligibility.

Medicare Part B: The City does not pay for Medicare Part B coverage.

*** Please note that for purposes of this valuation and from discussions with the Client it was assumed that an employee would accrue at least 325 sick days at the time of their retirement if they had at least 20 years of continuous service.**

SECTION 5: GASB OPEB SUMMARY

The Governmental Accounting Standards Board (GASB) issued Statement No. 45 for the recognition and disclosure of municipal employers' (Counties, Cities, Towns, Villages, School Districts, etc.) postemployment benefit plans other than pensions. Postemployment benefits include health care benefits, life insurance benefits, dental insurance benefits, and in some cases unused sick day credits. These benefits arise from an exchange of salaries and benefits for employee services rendered and constitute part of the compensation for those services.

Every Municipal employer will be required to conduct an actuarial analysis and provide a financial disclosure relative to the accrued liabilities of the postemployment benefit plans and the funded status of those liabilities. It is important to note that Statement No. 45 *does not* require the funding of this liability only the acquisition and disclosure of the data.

Implementation Dates

Phase 1:

- Employers with annual revenues which exceed $100,000,000
- Fiscal years beginning after December 15, 2006

Phase 2:

- Employers with annual revenues which exceed $10,000,000, but whose revenues are less than $100,000,000.00
- Fiscal years beginning after December 15, 2007

Phase 3:

- Employers with annual revenues which are less than $10,000,000
- Fiscal years beginning after December 15, 2008

Valuation Frequency

For financial reporting purposes, a full actuarial valuation should be performed at the following minimum frequency:

a) Biennially for plans with a total membership of 200 or more
b) Triennially for plans with a total membership of fewer than 200

GASB 45 Terminology

Actuarial Present Value of Total Projected Benefits: Total projected benefits include all benefits estimated to be payable to plan members (retirees and beneficiaries, terminated employees entitled to benefits but not yet receiving them, and current active members) as a result of their service through the valuation date and their expected future service. The actuarial present value of total projected benefits as of the valuation date is the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Expressed another way, it is the amount that would have to be invested on the valuation date so that the amount invested in addition to investment earnings will provide sufficient assets to pay total projected benefits when due.

Actuarial Accrued Liability (AAL): The AAL is the portion, as determined by a particular Actuarial Cost Method, of the actuarial present value of the total future benefits based on the employees' service rendered to the measurement date.

Annual Required Contributions (ARC): The employer's periodic required contributions to a defined benefit OPEB Plan, calculated in accordance with the parameters.

Annual OPEB Cost: An accrual-base measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.

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

Unfunded Actuarial Accrued Liability (UAAL): The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. For an unfunded plan the UAAL is equal to the AAL.

SECTION 6: YEAR-END DISCLOSURE ACCOUNTING INFORMATION

City of Cortland
Year-End Disclosures under GASB #45
For the Post-retirement Health Care Benefits Program

Required Information	**FY 2015**	**FY 2014**	**FY 2013**
Annual required contribution	$6,552,913	$6,133,374	$5,655,955
Interest on net OPEB obligation	900,332	720,563	552,005
Adjustment to annual required contribution	(1,456,743)	(1,136,044)	(849,397)
Annual OPEB cost (expense)	5,996,502	5,717,893	5,358,563
Contibutions made (expected)	(1,258,750)	(1,223,668)	(1,144,614)
Increase in net OPEB obligation	4,737,752	4,494,225	4,213,949
Net OPEB obligation - beginning of year	22,508,299	18,014,074	13,800,125
Net OPEB obligation - end of year	$27,246,051	$22,508,299	$18,014,074
Annual OPEB Cost	5,996,502	5,717,893	5,358,563
Percentage of Annual OPEB Cost Contributed	21.0%	21.4%	21.4%
Net OPEB Obligation at end of year	27,246,051	22,508,299	18,014,074
Required Supplementary Information			
Actuarial Value of Assets	0	0	0
Actuarial Accrued Liability (AAL)	62,949,066	59,563,399	57,660,771
Unfunded AAL	62,949,066	59,563,399	57,660,771
Funded Ratio	0%	0%	0%
Covered Payroll*	N/A	N/A	9,427,197
UAAL as a Percentage of Covered Payroll*	N/A	N/A	612%
Discount rate at end of year	4.00%	4.00%	4.00%
Expected Return on plan assets	N/A	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A

* Required disclosure at adoption of standard.

SECTION 7: SUPPLEMENTAL SCHEDULE SS-2 - OPEB

Annual OPEB Cost and Net OPEB Obligation

Type of Other Post Employment Benefit Plan (OPEB):	Single Employer Defined Benefit Plan
Annual Required Contribution:	$6,552,913
Interest on Net OPEB Obligation:	$900,332
Adjustment to Annual Required Contribution:	(1,456,743)
Annual OPEB Expense:	$5,996,502
Less: Actual (Expected) Contribution Made:	(1,258,750)
Increase in Net OPEB Obligation:	$4,737,752
Net OPEB Obligation – beginning of year:	$22,508,299
Net OPEB Obligation – end of year:	$27,246,051
Percentage of Annual OPEB Cost Contributed:	21.0%

Funded Status and Funding Process

Actuarial Accrued Liability (AAL):	$62,949,066
Less: Actuarial Value of Plan Assets:	$0
Unfunded Actuarial Accrued Liability:	$62,949,066
Funded Ratio (Actuarial Value of Plan Assets/AAL):	0%
Annual Covered Payroll*:	N/A
UAAL as Percentage of Annual Covered Payroll*:	N/A

*Required disclosure at adoption of standard.

Other OPEB Information

Date of Most Recent Actuarial Valuation (mm/dd/yyyy):	January 1, 2014
Actuarial Method Used:	Projected Unit Credit
Assumed Rate of Return on Investments Discount Rate:	4%
Amortization Period of UAAL (in years):	23.00