



**ACUFF & ASSOCIATES**  
The Retirement Plan Authority

A BETTER PLAN. A BETTER PARTNER. A BETTER RETIREMENT.

# GASB 75 Disclosure for the Year Ending June 30, 2018

*Prepared for*

## CITY OF FRANKLIN POST-RETIREMENT MEDICAL PLAN

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## Introduction/Certification

This Report has been prepared for the City of Franklin (the "City") by Acuff & Associates, Inc. to present disclosure under Government Accounting Standards Board Statement No. 75 (GASB 75) for the City's Post-Retirement Medical Plan.

The actuarial information is based on July 1, 2017 Actuarial Valuation Study report and is used in this disclosure. July 1, 2017 is the Measurement Date.

The information and valuation results shown in this Report are, to the best of our knowledge, complete and accurate. The information presented in this Report is based upon the following:

- Active employee census data as of January 1, 2017 submitted by the City, which appears to be reasonable and sufficient for the purpose of this Report
- Retiree census data as of July 1, 2017, submitted by the City, which appears to be reasonable and sufficient for the purpose of this Report
- Amount of premiums paid by each retiree and the City for the period ending June 30, 2018
- Paid claims for retirees as reported by Blue Cross/Blue Shield for the period ending June 30, 2018
- Actuarial assumptions and methods, which, individually and in combination, represent our best estimate of anticipated experience under the plan
- Interpretation of plan provisions as summarized in this Report

The amounts presented in the exhibits of this Report were determined in accordance with generally accepted actuarial methods and practices and fully disclose the actuarial position of the plan. Reliance was placed on participant data as described above.

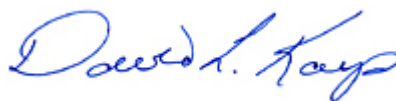
The undersigned are available to answer any questions with respect to this report.

Respectfully submitted,

Acuff & Associates, Inc.

August 21, 2018

Date Signed



David F. Kays, A.S.A., M.A.A.A.

August 21, 2018

Date Signed



John R. Rath, FCA, MAAA, EA

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## **Section 1 – Summary of Valuation Results**

This Section sets forth the exhibits for GASB 75 disclosure.

**Section 1.1** – Actuarial Result as of July 1, 2017.

**Section 1.2** – Reconciliation of Net OPEB Liability.

**Section 1.3** – OPEB Expense for the Year Ending June 30, 2018.

**Section 1.4** – Sensitivity of OPEB Liabilities.

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## Section 1.1 – Actuarial Results

	<b>as of July 1, 2017</b>
1. Present Value of Benefits	
a. Actives Eligible to Retire	\$ 240,300
b. Actives not Eligible to Retire	5,585,700
c. Retirees	<u>1,452,100</u>
d. Total	<u><u>\$ 7,278,100</u></u>
2. Total OPEB Liability (TOL)	
a. Actives Eligible to Retire	\$ 240,300
b. Actives not Eligible to Retire	4,140,500
c. Retirees	<u>1,452,100</u>
d. Total	<u>\$ 5,832,900</u>
3. Plan Fiduciary Net Position	<u>0</u>
4. Net OPEB Liability (2d. - 3.)	<u><u>\$ 5,832,900</u></u>
5. Service Cost	\$ 142,900

## Section 1.2 – Reconciliation of Net OPEB Liability

### Reconciliation for the Year Ending June 30, 2018

	GASB 75		
	Increase (Decrease)		
	(a)	(b)	(a) - (b)
	Total OPEB Liability (TOL)	Plan Fiduciary Net Position	Net OPEB Liability
<b>Balances as 7/1/2017</b>	\$ 5,832,900	\$ 0	\$ 5,832,900
Changes for the Year:			
Service Cost	\$ 142,900	N/A	\$ 142,900
Interest	158,282	N/A	158,282
Difference Between Actual and Expected	0	N/A	0
Net Investment Income	N/A	N/A	N/A
Net City Payments	(645,902)	N/A	(645,902)
Administrative Expense	0	N/A	0
Net Changes	\$ (344,720)	\$ 0	\$ (344,720)
<b>Balances as 6/30/2018</b>	<b>\$ 5,488,180</b>	<b>\$ 0</b>	<b>\$ 5,488,180</b>

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## Section 1.3 – OPEB Expense for the Year Ending June 30, 2018

### Components of OPEB Expense GASB 75

	<u>2017/2018</u>
Service Cost	\$ 142,900
Interest on Total OPEB Liability	158,282
Difference Between Expected and Actual Experience	0
Plan Amendment	0
Change of Assumptions	0
Employee Contributions	0
Projected Earnings on Assets	0
Difference Between Expected and Actual Earnings	0
Pension Plan Administrative Expense	0
Total Expense	<u>\$ 301,182</u>

## Section 1.4 –Sensitivity of OPEB Liabilities

### Sensitivity of OPEB Liability to Changes in the Discount Rate

	<u>1.00% Decrease</u>	<u>Current Rate</u>	<u>1.00% Increase</u>
Interest Rate	2.00%	3.00%	4.00%
Total OPEB Liability	\$ 6,075,188	\$ 5,488,180	\$ 4,985,118
Plan Fiduciary Net Position	0	0	0
Net OPEB Liability	<u>\$ 6,075,188</u>	<u>\$ 5,488,180</u>	<u>\$ 4,985,118</u>

### Sensitivity of OPEB Liability to Changes in the Trend Rate

	<u>1.00% Decrease</u>	<u>Current Rate</u>	<u>1.00% Increase</u>
Total OPEB Liability	\$ 5,117,857	\$ 5,488,180	\$ 5,941,359
Plan Fiduciary Net Position	0	0	0
Net OPEB Liability	<u>\$ 5,117,857</u>	<u>\$ 5,488,180</u>	<u>\$ 5,941,359</u>

### Sensitivity of OPEB Liability to Changes in the Combined Discount and Trend Rates

	<u>1.00% Decrease</u>	<u>Current Rate</u>	<u>1.00% Increase</u>
Total OPEB Liability	\$ 5,649,508	\$ 5,488,180	\$ 5,377,390
Plan Fiduciary Net Position	0	0	0
Net OPEB Liability	<u>\$ 5,649,508</u>	<u>\$ 5,488,180</u>	<u>\$ 5,377,390</u>



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## **Section 2 – Basis of Valuation**

In this Section, the basis of the Valuation is presented and described. This information (the provisions of the plan and the census of participants) is the foundation of the Valuation, since these are the present facts upon which benefit payments will depend.

The Valuation is based upon the premise that the plan will continue in existence, therefore future events must also be considered. These future events are assumed to occur in accordance with the actuarial assumptions and concern such events as the earnings of the assets, the number of participants who will remain until retirement as well as their ages at retirement and their expected benefits.

The actuarial assumptions and the actuarial cost method which have been adopted to guide the sponsor in funding the Plan in a reasonable and acceptable manner are described in this Section.

**Section 2.1** – Plan Provisions.

**Section 2.2** – Actuarial Valuation Method and the Actuarial Assumptions.

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## **Section 2.1 – Plan Provisions**

The City offers Post-employment medical benefits payable to Medicare eligible or age 65 employees. The benefits vary depending upon eligibility requirements and retirement age.

There are two insurance options:

- Option I is the standard deductible policy with an annual deductible In-Network of \$500 for individual coverage and \$1,000 for family coverage.
- Option II is the high deductible policy with an annual deductible In-Network of \$1,000 for individual coverage and \$3,000 for family coverage.

See the City's benefit's manual for a more complete description of the benefit.

### **Plan A – Normal Early Retirement**

Medical insurance under Option I is provided upon retirement at age 62 with 20 years of service. Effective January 2014, the normal early retirement plan was changed to a premium-sharing formula. The retiree pays 20% of the COBRA rate less 2% for family coverage and 15% of the COBRA rate less 2% for individual coverage. As the COBRA rates increase, the retiree pays the increase.

### **Plan B – Special Retirement**

Medical insurance is provided upon retirement at age 55 with 30 years of service. Medical benefits are provided until age 65. This plan sunsets for all future retirees after September 30, 2011.

### **Plan C – Alternative Retirement-hired before July 1, 2006**

For employees hired before July 1, 2006, Medical insurance is provided upon retirement with at least 25 years of service. The retiree is provided coverage under Option II. The retiree pays the COBRA rate less 2.00% less \$500.00 per month for family coverage or less \$200.00 per month for single coverage for Option II. As the COBRA rates increase, the retiree pays the increase.

### **Plan D – Alternative Retirement-hired July 1, 2006 or after**

For employees hired after June 30, 2006, Medical insurance is provided upon retirement after age 55 and 25 years of service. The retiree is provided coverage under Option II. The retiree pays the COBRA rate less 2.00% less \$500.00 per month for family coverage or less \$200.00 per month for single coverage for Option II. As the COBRA rates increase, the retiree pays the increase.

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## **Section 2.1 – (Continued)**

Once a retiree has medical benefits coverage, the coverage does not change except for changing from family to single coverage when the spouse dies.

A retiree who cancels insurance after retiring cannot have the insurance reinstated later.

If the spouse reaches age 65 before the retiree, the coverage for the spouse stops at age 65.

The medical benefits of the City are self-funded. This means that the City is responsible for the payment of claims up to the stop-loss and aggregate claims. All retiree claims in each year are assumed to be less than the stop-loss limit.

Retirees who retire and are not eligible for one of the plans listed above can have COBRA as any other employee who terminates employment. These potential retirees are not valued because it is not considered a post-employment benefit.

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## **Section 2.2 – Actuarial Basis**

### **Actuarial Method**

The actuarial obligations and expenses under GASB 75 results are determined under the Entry Age Normal Method as level percent of compensation as described in GASB 75.

The following are detailed definitions of terms used in these methods:

### **Present Value of Projected Benefits**

The value, as of a specified date, of a payment or stream of payments payable or receivable thereafter, with each amount adjusted to reflect the time value of money (through discounts for interest) and the probability of payment.

### **Annual Service Cost**

The annual service cost is the annual amount that would have to be paid for each member from his original date of entry (employment) to his assumed retirement (termination, disability, or death) date in order to fund his projected benefits, over the whole of his working life (membership in the plan). This computation is made in such a way that each year's annual payment is a level percent of compensation.

### **Total OPEB Liability (TOL)**

The employer's obligation on a specified date (i.e., the measurement date) for post-retirement benefits to be paid in future years is determined by calculating the present value of projected benefits at that date, and subtracting the present value of future service costs.

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## **Section 2.2 – (Continued)**

### **Economic Actuarial Assumptions**

#### **Interest**

3.00% per year, compounded annually, net of expenses.

#### **Salary Scale**

2.00% per year, compounded annually (used for GASB 75)

#### **Health Trend**

The Health Trend rate is 7.25% for the Year beginning July 1, 2016 reduced by 0.25% for each year until 3.00% is reached. The trend rate is applied to both expected claims and COBRA rates.

### **Demographic Actuarial Assumptions**

#### **Healthy Mortality**

Male: SOA - RP 2000 Mortality Table for males with blue collar adjustment

Female: SOA - RP 2000 Mortality Table for females with blue collar adjustment

#### **Post Disablement Mortality**

Male: PBGC for Unhealthy Lives Table for males

Female: PBGC for Unhealthy Lives Table for females

See the Table at the end of this Section for selected rates.

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## Section 2.2 – (Continued)

### Termination or Withdrawal from Service

Administrative Employees: Twice the T-3 Table less 1951 Group Annuity Table for males

Police and Fire Employees: Four times the T-3 Table less 1951 Group Annuity Table for males

See the Table at the end of this section for sample values.

### Age at Retirement

Retirement decrements start at 25 years of service or age 55 and 25 years if hired after June 30, 2006.

See the valuation report for the pension plan.

### Possibility of Disability

Male: 100% of UAW Table for males

Female: 100% of UAW Table for females

See the Table at the end of this section for selected rates.

#### Sample Annual Decrement Rates Per 100 Participants

Attained Age	Disability		Withdrawal Twice T-3
	Males	Females	
20	.0300	.0400	13.1550
25	.0300	.0500	10.5408
30	.0400	.0600	9.6624
35	.0500	.0800	8.9472
40	.0700	.1000	7.6824
45	.1000	.1500	6.4298
50	.1800	.2600	3.0490
55	.3600	.4900	.6688
60	.9000	1.2100	.0000
65	.0000	.0000	

## Section 2.2 – (Continued)

### Sample Annual Decrement Rates Per 100 Participants

Attained Age	Healthy Mortality		Post-Disability Mortality	
	Males	Females	Males	Females
20	.0345	.0191	4.83	2.63
25	.0376	.0207	4.83	2.63
30	.0726	.0293	3.62	2.37
35	.1087	.0519	2.78	2.14
40	.1371	.0878	2.82	2.09
45	.1793	.1387	3.22	2.24
50	.2412	.1963	3.83	2.57
55	.4196	.2795	4.82	2.95
60	.8270	.4949	6.03	3.31
65	1.5539	1.0398	6.78	3.70
70	2.6758	1.8634	7.39	4.11
75	4.3131	3.0887	8.42	4.92
80	7.0547	4.8953	11.28	7.46
85	11.5077	8.3100	16.82	11.28
90	18.1757	13.6686	25.25	16.82
95	25.9466	19.2564	37.89	25.25
100	34.4556	23.7467	56.84	37.89
105	39.7886	29.3116	85.77	56.84
110	40.0000	36.4617	100.00	100.00
115	40.0000	40.0000		
120	100.0000	100.0000		

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## Section 2.2 – (Continued)

### Claims

The follow age factors are applied to the COBRA rate less 2.00% to estimate the amount of claims for each retiree at each projected age:

<b>Age</b>	<b>Male</b>	<b>Female</b>
41	1.00866	1.00726
42	1.01739	1.01457
43	1.02619	1.02193
44	1.03507	1.02935
45	1.04403	1.03682
46	1.05307	1.04435
47	1.06218	1.05193
48	1.07137	1.05956
49	1.08065	1.06725
50	1.09000	1.07500
51	1.09701	1.07794
52	1.10406	1.08089
53	1.11116	1.08385
54	1.11831	1.08682
55	1.12550	1.08980
56	1.13274	1.09278
57	1.14002	1.09577
58	1.14735	1.09877
59	1.15473	1.10178
60	1.16215	1.10479
61	1.16963	1.10782
62	1.17715	1.11085
63	1.18472	1.11389
64	1.19233	1.11694



## Section 2.2 – (Continued)

### Current COBRA Rates less 2%, Retiree’s Portion and City’s Portion

	Option II- Plan D			Plan A		
	COBRA Rate	Retiree’s Portion	Fixed City’s Portion*	COBRA Rate	Retiree’s Portion	City’s Portion
Single	537.77	337.77	200.00	656.43	98.47	557.96
Spouse	537.77	696.99	300.00	656.43	456.37	1,527.84

\*As the COBRA rate increases, the retiree portion increases by the difference between the COBRA rate and the Fixed City’s Portion.

Spouse’s claims are expected to be single premiums increased by the age factor but the amount paid by retiree is family rate minus the City’s portion.

The current retiree premiums and amounts paid by the retirees are provided by the City. Expected claims for retirees are based on the 98% of COBRA premium provided by the City times the age factor.

### Percent of Family Coverage

64% of the new retirees will choose family coverage. All remaining retirees will choose single coverage.

### Spouse Age

Female Spouse age is assumed to be 3 years younger than the male spouse, and spouse’s coverage will stop at the same time as retiree coverage or age 65 if earlier.

### Expenses

No expenses are assumed.