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October 26, 2011

To: Rhonda Place

Employer Name: Humbleton School District 55

GASB 45 Valuation of Postemployment Benefits as of October 1, 2011

Enclosed is an actuarial valuation report concerning "Other Postemployment Benefits" (OPEB) sponsored by the above-named Employer. The valuation date is October 1, 2011.

Milliman has prepared this report in compliance with Statement No. 45 of the Governmental Accounting Standards Board (GASB 45). It is intended for use in preparing financial statements for the Employer.

If you have any questions about this valuation, you may contact our office at GASB45OEBBMembers@milliman.com. Please include the name of the Employer in the subject line or body of your e-mail. We will gladly accommodate requests for additional information or consulting; however, please be aware that such requests may be billed to the Employer at our hourly billing rates specified in the Employer's agreement with Milliman regarding this valuation.

Sincerely,

William H. Clark-Shim, FSA, EA, MAAA
Consulting Actuary

WHC:wp
encl.



This work product was prepared solely for Humbleton School District 55, and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

**GASB 45 Actuarial Valuation of
Postemployment Benefits Other than Pensions
for Humbleton School District 55**

As of October 1, 2011

Prepared by:

**William H. Clark-Shim, FSA, EA, MAAA
Consulting Actuary**

October 26, 2011



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To: Rhonda Place

Employer Name: Humbleton School District 55

**Re: GASB 45 Actuarial Valuation of Postemployment Benefits as of
October 1, 2011**

We have completed an actuarial valuation of postemployment benefits for the above-named Employer as of October 1, 2011.

The purpose of this report is to determine the Annual Required Contribution and required financial disclosures under the Governmental Accounting Standards Board Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). Our determinations reflect the procedures and methods prescribed in GASB 45.

In preparing our report, we relied on accounting and benefits information and employee data furnished to us by Oregon Educators Benefits Board and the Employer. While Milliman has not audited the benefits information and census data, we reviewed them for reasonableness and they are, in our opinion, sufficient and reliable for the purposes of our calculations. If any of this information as summarized in this report is inaccurate or incomplete, the results shown could be materially affected and this report may need to be revised.

The actuarial cost method and assumptions used as well as the principal plan provisions upon which the analysis is based are set forth in the following report, and were approved by the Employer. Nevertheless, the emerging costs will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

Actuarial computations under GASB 45 are for purposes of fulfilling Employer accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of GASB 45. Determinations for purposes other than meeting Employer financial accounting requirements may be significantly different from the results reported herein. Accordingly, additional determinations are needed for other purposes. Reliance on information contained in this report by anyone for anything other than the intended purpose puts the relying entity at risk of being misled. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

Milliman's work is prepared solely for the internal business use of the Employer. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its



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work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exception(s):

- (a) The Employer may provide a copy of Milliman's work, in its entirety, to its professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the Employer.
- (b) The Employer may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

Future actuarial measurements 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 (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. We further certify that all costs, liabilities, rates of interest, and other factors in this valuation have been determined on the basis of actuarial assumptions and methods which, taking into account the experience of the Employer and reasonable expectations, are reasonable both individually and in combination.

The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

William H Clark-Shim, FSA, EA, MAAA
Consulting Actuary

WHC:wp



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SECTION I. MANAGEMENT SUMMARY

Introduction

Milliman, Inc. (“Milliman”) has been retained by Humbleton School District 55 (“Employer”) to provide a GASB 45 actuarial valuation of postemployment benefits (OPEB). In our valuation we:

- Project expected payouts for the next 10 years
- Calculate the present value of total benefits
- Calculate the actuarial liability (present value of benefits attributable to past service)
- Reconcile October 1, 2009 actuarial results to October 1, 2011 actuarial results
- Determine the Annual Required Contribution (ARC) and Annual OPEB Cost under GASB 45, for the fiscal years ending June 30, 2011 and June 30, 2012
- Prepare draft financial statement disclosures relating to the funded status of the benefits

Results of Study

The valuation results are summarized in the following exhibit and compared with the results of the prior valuation.

	<u>October 1, 2009</u>	<u>October 1, 2011</u>
Active Employees	553	519
Eligible Retirees	82	79
Spouses of Ineligible Retirees	<u>7</u>	<u>7</u>
Total Participants	642	605
Spouses of Eligible Retirees	37	33
Present Value of Benefits	\$ 20,004,406	\$ 19,417,116
Actuarial Accrued Liability	\$ 12,858,820	\$ 12,372,673
Assets	<u>0</u>	<u>0</u>
Unfunded Actuarial Accrued Liability	\$ 12,858,820	\$ 12,372,673
Normal Cost	\$ 695,138	\$ 642,327

The results of the October 1, 2009 valuation are used to prepare GASB 45 accounting results for the fiscal years ending June 30, 2010 and June 30, 2011. The results of the October 1, 2011 valuation are used to prepare GASB 45 accounting results for the fiscal years ending June 30, 2012 and June 30, 2013. Accounting results are developed in Exhibits 2, 4 and 5.

SECTION I. MANAGEMENT SUMMARY

The summary exhibit above uses the following terms:

The **Present Value of Benefits** is the present value of projected benefits (projected claims less retiree contributions) discounted at the valuation interest rate (4.00%).

The **Actuarial Accrued Liability** is the present value of benefits that are attributed to past service only. The portion attributed to future employee service is excluded. For retirees, this is equal to the present value of benefits. For active employees, this is equal to the present value of benefits prorated by service to date over service at expected retirement age.

The **Normal Cost** is that portion of the Employer provided benefit attributable to employee service in the current year. Employees are assumed to have an equal portion of the present value of benefits attributed to each year of service from date of hire to expected retirement age.

Background

GASB 45 is a governmental accounting standard released in June 2004 which requires public-sector employers to apply accrual accounting to OPEB offerings to its retirees and their dependents.

The accounting applies to two broad classifications of benefits, which are discussed in greater detail in Appendix A. First, GASB 45 requires that future employer-paid OPEB, such as an employer contribution towards retiree medical insurance, be recognized over the working lifetime of an employee – that is, the cost is recognized prior to the employee's retirement. GASB also requires that, under certain circumstances, an Employer must recognize an implicit subsidy arising from allowing retirees to continue medical coverage, even if the retirees pay the "full" premium charged by the insurance carrier. This implicit subsidy arises from the fact that health care premiums do not increase with age, whereas health care costs do increase with age.

The actuarial valuation process involves projecting the costs of retiree benefits in years following the valuation date, based upon the active and retired membership as of the valuation date. Exhibit 1 shows the projection of these costs over the next ten years, as well as their total present value on the valuation date. These costs are then assigned to past service and future

SECTION I. MANAGEMENT SUMMARY

service, as shown in Exhibit 2. The ARC – which is the accrual cost for accounting purposes – is developed in Exhibit 5 as the sum of the Normal Cost and an amortized portion of the Unfunded Actuarial Accrued Liability. The Annual OPEB Cost is the ARC, plus accounting adjustments required under GASB 45. Finally, the Net OPEB Obligation is calculated by netting the Annual OPEB Cost against the cost of benefits actually paid in the current fiscal year. In other words, the accrual cost is netted against the current cost, and the difference is the remaining accrual to be paid in future years. The Net OPEB obligation accumulates over time as the sum of annual accrual costs, less current year costs, with interest.

Assuming the Employer does not fund its OPEB benefits through a separate, irrevocable trust, GASB 45 essentially recognizes the Unfunded Actuarial Accrued Liability over time on the Employer's balance sheet.

Assumptions

With any valuation of future benefits, assumptions of anticipated future events are required. The Employer approved the assumptions used herein. The assumptions are generally based upon those used for valuing pension benefits under Oregon PERS, and were developed in consultation with Milliman.

Discount Rate. GASB 45 requires that the interest rate used to discount future benefit payments back to the present day be based on the expected rate of return on any investments set aside to pay for these benefits. If no funds are set aside for this purpose, the discount rate would be based on the expected return on the Employer's operating funds. This report is based on the understanding that the Employer has not decided to establish a separate, irrevocable trust to fund the Annual OPEB Cost. We have, therefore, used a discount rate of 4.00% based on long term expectations of investment return for the Oregon Local Government Investment Pool or similar investments.

Health Cost Trend. We have assumed medical costs and premiums will increase 8.4% in the first year (October 1, 2011 premiums compared with October 1, 2012 premiums), 7.3% in the second year, 6.2% in the third year, 5.9% for the 4th through 6th year, 5.8% for the 7th through 10th year, and slowly trending down from 5.7% to an ultimate rate of 5.0% in 2040. We also assumed that dental and vision costs will increase by 5.0% in each future year.

SECTION I. MANAGEMENT SUMMARY

Retirement and Withdrawal Rates. We are generally using the rates adopted by the Oregon Public Employees Retirement System (PERS) for its December 31, 2010 actuarial valuation of retirement benefits. Many of these rates changed significantly from the rates used for the Employer's October 1, 2009 GASB 45 valuation.

A complete summary of the actuarial assumptions is presented in Appendices B through D.

Variability of Results

The results contained in this report represent reasonable estimates. However, variation from these or any other estimates of future retiree medical costs is not only possible but probable. Actual future costs may vary significantly from estimates in this report.

Valuation results are particularly sensitive to the assumptions used to project future health care cost increases (health cost trend). Exhibit 7 shows a comparison of valuation results based on valuation assumptions and based on a one percent change in the health cost trend.

Exhibit 3 compares the Actuarial Accrued Liability measured in this valuation with the prior valuation and estimates the amount and source of unexpected changes. Significant differences between actual and expected liability can come from health cost trend or demographic experience which differ from expectations. Changes to benefits offered or to valuation assumptions can also affect liabilities.

The Employer should note that liabilities for implicit subsidies are calculated as the difference between expected claims and premiums. A relatively small percentage change to expected claims or premiums can affect the net liability by a larger percentage. This is one of several reasons why GASB 45 implicit subsidy liabilities tend to be more volatile than pension liabilities.

SECTION II. EXHIBITS

Exhibit 1. Projected Annual Employer Cost

The table below illustrates the projected pay-as-you-go Employer costs of providing retiree OPEB. The projections only consider the current group of employees and retirees and their current benefit structure.

<i>FY Ending June 30</i>	<i>Projected Claims</i>	<i>Retiree Premiums</i>	<i>Implicit Employer Subsidy</i>	<i>Explicit Employer Benefits</i>	<i>Stipend Benefits</i>	<i>Total Benefits</i>
2012	\$ 1,381,215	\$ (810,878)	\$ 570,337	\$ 340,074	\$ 0	\$ 910,411
2013	1,444,390	(851,098)	593,292	308,069	0	901,361
2014	1,453,923	(867,874)	586,049	308,705	0	894,754
2015	1,613,912	(957,668)	656,244	336,465	0	992,709
2016	1,729,573	(1,017,223)	712,350	353,236	0	1,065,586
2017	1,830,900	(1,068,833)	762,067	344,963	0	1,107,030
2018	1,960,378	(1,134,978)	825,400	363,505	0	1,188,905
2019	1,991,490	(1,148,524)	842,966	361,718	0	1,204,684
2020	2,018,125	(1,158,653)	859,472	338,824	0	1,198,296
2021	2,031,458	(1,170,682)	860,776	284,794	0	1,145,570
Present Value of Benefits	\$ 35,246,026	\$ (20,382,798)	\$ 14,863,228	\$ 4,553,888	\$ 0	\$ 19,417,116

Explicit employer benefits are payments made by the Employer to provide retirees' OPEB. Implicit employer subsidies generally represent the increase in premiums the Employer must pay on behalf of its active employees as a consequence of providing access to retirees' OPEB.

SECTION II. EXHIBITS

Exhibit 2. Liabilities and Normal Cost

The **Present Value of Benefits** is the actuarial present value of benefits expected to be paid for all retirees and covered employees.

The **Actuarial Accrued Liability (AAL)** is the actuarial present value of benefits attributed to employee service rendered prior to the valuation date. The AAL equals the present value of benefits multiplied by a fraction equal to service to date over service at expected retirement age.

The **Normal Cost** is the actuarial present value of benefits attributed to one year of service. This equals the present value of benefits divided by service at expected retirement. Since retirees are not accruing any more service, their normal cost is zero. Normal Costs are increased from the valuation date to the fiscal year end dates using a combination of the discount rate and health cost trend assumptions.

	<i>Valuation Date</i>	
	<u>October 1, 2009</u>	<u>October 1, 2011</u>
<i>Present Value of Benefits</i>		
Actives	\$ 16,411,011	\$ 16,245,479
Retirees	<u>3,593,395</u>	<u>3,171,637</u>
Total	\$ 20,004,406	\$ 19,417,116
<i>Actuarial Accrued Liability</i>		
Actives	\$ 9,265,425	\$ 9,201,036
Retirees	<u>3,593,395</u>	<u>3,171,637</u>
Total	\$ 12,858,820	\$ 12,372,673
<i>Normal Cost</i>		
As of Valuation Date	\$ 695,138	\$ 642,327
FYE June 30, 2010	\$ 715,890	
FYE June 30, 2011	\$ 757,412	
FYE June 30, 2012		\$ 687,962
FYE June 30, 2013		\$ 727,864

Following is an approximate breakdown of liability by employment classification. These numbers are for informational purposes only.

<i>Employment Classification</i>	<i>Actuarial Accrued Liability</i>	<i>Normal Cost</i>	<i>Member Count</i>
Admin/Confidential	\$ 904,982	\$ 45,053	38
Licensed/Certified	9,070,285	422,198	353
Classified	2,397,406	175,076	214

SECTION II. EXHIBITS

Exhibit 3. Reconciliation of Valuation Results

This exhibit reconciles the results of the prior October 1, 2009 valuation with the results of the current October 1, 2011 valuation. The October 1, 2009 Actuarial Accrued Liability (AAL) and Normal Cost are brought forward in time with interest and reduced by benefits expected to have been received.

Expected October 1, 2011 AAL	
(1) October 1, 2009 AAL	\$ 12,858,820
(2) October 1, 2009 Normal Cost	695,138
(3) October 1, 2010 Normal Cost	730,456
(4) Expected Benefits Received, October 1, 2009 – September 30, 2011	1,675,001
(5) Interest on Items (1) through (5)	<u>624,658</u>
(6) Expected October 1, 2011 AAL = (1) + (2) + (3) - (4) + (5)	\$ 13,234,071

Reconciliation to Actual October 1, 2011 AAL		As a Percent of Expected AAL
(7) Demographic (Gain) / Loss	\$ (529,845)	-4%
(8) Health Cost Trend (Gain) / Loss	(126,030)	-1%
(9) Changes in Assumptions	(205,523)	-2%
(10) Changes in Benefits Offered	<u>0</u>	0%
(11) Actual October 1, 2011 AAL = (6) + (7) + (8) + (9) + (10)	\$ 12,372,673	

Actuarial gains and losses result from differences between the expectations of the prior valuation and the remeasurement of the current valuation.

Demographic (gain) / loss comes from many sources, such as rates of termination, retirement, and election of health care benefits.

Health cost trend (gain) / loss estimates the effect of actual 2009-2011 health cost trend compared with projections in the October 1, 2009 valuation. In many cases, health cost trend (gain)/loss may be the largest source of gain or loss from one valuation to the next. Health cost trend (gain) / loss can also capture changes in health care coverages offered by the Employer or elected by retirees. For example, if the Employer implemented a lower cost medical coverage during 2009-2011, that could be reflected as a health cost trend (gain).

The changes in assumptions and benefits reflect the basis for the October 1, 2009 valuation compared with the basis for the October 1, 2011 valuation, measured as of October 1, 2011. See Appendix A for a description of the changes in benefits, if any, since the prior valuation. See the end of Appendix D for a description of the changes in assumptions since the prior valuation.

SECTION II. EXHIBITS

Exhibit 4. Unfunded Actuarial Accrued Liability

The Unfunded Actuarial Accrued Liability (UAAL) is the actuarial liability offset by any assets set aside to provide retiree health benefits. This is equal to the value of the retiree health benefits accrued to date that has not been funded. The UAAL must be amortized over a period not exceeding 30 years and included in the ARC amount (shown in Exhibit 5) each year.

We calculated the amortization of UAAL as a level percentage of payroll over a rolling period of 15 years. The amortization amount is recalculated at each valuation date using the current UAAL. Amortization amounts are expected to increase at the same rate as payroll increases each year. We assumed the Employer's payroll will increase 3.75% per year for this purpose.

UAAL amortization payments are increased from the valuation dates to the fiscal year end dates using the 4.00% discount rate assumption. UAAL amortization payments are recalculated at interim valuation dates (e.g., October 1, 2012) based upon expected liabilities at those dates.

	<i>Valuation Date</i>	
	<i>October 1, 2009</i>	<i>October 1, 2011</i>
<i>Unfunded Actuarial Liability (UAAL)</i>		
Actuarial Accrued Liability	\$ 12,858,820	\$ 12,372,673
Actuarial Value of Assets	<u>0</u>	<u>0</u>
Unfunded Actuarial Accrued Liability	\$ 12,858,820	\$ 12,372,673
<i>Amortization of UAAL for ARC</i>		
Amortization Factor	14.7502	14.7502
Amortization Amount at Valuation Date	\$ 871,773	\$ 838,814
Amortization Amount June 30, 2010	\$ 897,798	
Amortization Amount June 30, 2011	\$ 958,772	
Amortization Amount June 30, 2012		\$ 898,409
Amortization Amount June 30, 2013		\$ 914,038

SECTION II. EXHIBITS

Exhibit 5. Projected Financial Statement Disclosures

The following table shows the calculation of the Annual Required Contribution and Net OPEB Obligation assuming the Employer does not fund its OPEB liability.

	<i>For the Fiscal Year Ending</i>	
	<i>June 30, 2012</i>	<i>June 30, 2013</i>
<i>Determination of Annual Required Contribution</i>		
(1) Normal Cost at year end	\$ 757,412	\$ 687,962
(2) Amortization of UAAL	<u>958,772</u>	<u>898,409</u>
(3) Annual Required Contribution (ARC) (1) + (2)	\$ 1,716,184	\$ 1,586,371
<i>Determination of Net OPEB Obligation</i>		
(4) Annual Required Contribution	\$ 1,716,184	\$ 1,586,371
(5) Interest on prior year Net OPEB Obligation	29,547	58,506
(6) Adjustment to ARC *	<u>50,200</u>	<u>99,401</u>
(7) Annual OPEB Cost (4) + (5) – (6)	\$ 1,695,531	\$ 1,545,476
(8) Explicit Benefit Payments **	399,048	340,074
(9) Implicit Benefit Payments	<u>572,508</u>	<u>570,337</u>
(10) Increase in Net OPEB Obligation (7) – (8) – (9)	\$ 723,975	\$ 635,065
(11) Net OPEB Obligation – beginning of year	\$ 738,687***	\$ 1,462,662
(12) Net OPEB Obligation – end of year (10) + (11)	\$ 1,462,662	\$ 2,097,727

* Based upon beginning of year Net OPEB Obligation divided by ARC amortization factor of 14.7502, and given interest, net of assumed payroll increases, to end of year.

** For projection purposes, we have shown Employer contributions to be equal to expected Explicit Benefit Payments plus Implicit Benefit Payments during a given fiscal year. GASB 45 defines contributions for this purpose to be actual benefit payments during the year and contributions made to a separate, irrevocable trust. These GASB 45 contributions can be accounted for by reflecting actual Explicit Benefit Payments for the fiscal year, plus estimated Implicit Benefit Payments shown above.

*** July 1, 2011 Net OPEB Obligation reported by the Employer.

SECTION II. EXHIBITS

Exhibit 5. Projected Financial Statement Disclosures (continued)

The following table shows historical Annual OPEB Cost and Net OPEB Obligation. For a given fiscal year end disclosure, results for the current year and the preceding two years are required to be shown.

<i>Fiscal Year Ended</i>	<i>Annual OPEB Cost</i>	<i>Percentage of OPEB Cost Contributed</i>	<i>Net OPEB Obligation</i>
06/30/2010	\$1,613,688	54%*	\$422,181
06/30/2011	\$1,655,528	57%*	\$738,687
06/30/2012	\$1,695,531	57%*	\$1,462,662
06/30/2013	\$1,545,476	59%*	\$2,097,727

**Based upon Explicit and Implicit Benefit Payments projected in the related actuarial valuation reports. May be revised to reflect actual Explicit Benefit Payments.*

Funded Status and Funding Progress. As of October 1, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$12,372,673, and the actuarial value of assets was zero, resulting in an unfunded accrued liability of \$12,372,673.

SECTION II. EXHIBITS

Exhibit 6. Required Supplementary Information

The following table shows a schedule of Funding Progress required under GASB 45.

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>AAL</i>	<i>UAAL</i>	<i>Funded Ratio</i>	<i>Covered Payroll</i>	<i>UAAL as a % of Covered Payroll</i>
10/01/2009	\$0	\$12,858,820	\$12,858,820	0%	n/a *	n/a *
10/01/2011	\$0	\$12,372,673	\$12,372,673	0%	n/a *	n/a *

* *Payroll was generally requested for this valuation only to the extent which it affected benefits. Most benefits were not related to pay. Therefore, the Employer will need to determine an appropriate covered payroll number for disclosure. Compensation used to determine contributions to Oregon PERS during the fiscal year may be appropriate for this purpose.*

SECTION II. EXHIBITS

Exhibit 7. Valuation Results – Sensitivity of Economic Assumptions

The following exhibit shows the results of the valuation based on valuation assumptions, and based on alternate health cost trend assumptions to illustrate the sensitivity of changes of the valuation results to changes in the health cost trend. The alternate health cost trend assumptions are 1% higher or lower than the valuation assumptions in all future years.

<i>Discount Rate</i>	<i>4.00%</i>	<i>4.00%</i>	<i>4.00%</i>
<i>Ultimate Trend Rate</i>	<i>5.00%</i>	<i>4.00%</i>	<i>6.00%</i>
Actuarial Accrued Liability (AAL)	\$ 12,372,673	\$ 11,399,098	\$ 13,481,319
Change in AAL		\$ (973,575)	\$ 1,108,646
Normal Cost	\$ 642,327	\$ 564,245	\$ 734,620
Change in Normal Cost		\$ (78,082)	\$ 92,293

SUMMARY OF BENEFITS VALUED

The following description of retiree benefits is intended to be only a brief summary. For details, reference should be made to Summary Plan Descriptions, Plan Documents, labor agreements, and employee booklets.

This summary is intended only to describe our understanding of the essential features of the postemployment benefits other than pensions (OPEB) that will be provided to current and future retirees based on Oregon personnel rules and information provided by Oregon Educators Benefits Board and Humbleton School District 55. All eligibility requirements and benefit amounts shall be determined in strict accordance with the relevant plan documents. To the extent that this summary does not accurately reflect any OPEB provisions, the results of this valuation may not be accurate.

There are two categories of OPEB valued under GASB 45: explicit employer benefits and implicit employer subsidies. Explicit employer benefits are paid from the employer to the retiree or from the employer to a benefits provider on behalf of the retiree. Implicit employer subsidies arise from offering benefits to retirees.

Explicit employer benefits under GASB 45 include retiree medical, dental, or life insurance coverage, where the employer pays for all or a portion of such coverage. Termination benefits, such as payout of unused sick leave or conversion of such payout to an individual account, are not accounted for under GASB 45.

In Oregon, the most common implicit employer subsidy under GASB 45 comes from offering pre-Medicare health care insurance coverage to retirees based on the gross premium rates charged to active employees. Health care premiums, priced only for retirees who on average incur higher health care claims costs than younger active employees, would be more expensive than health care premiums that are priced to cover the average costs of both actives and retirees combined. GASB 45 states that this implicit subsidy must be included in the liabilities and costs reported on the entity's financial statements. The sum of the liability from the explicit employer benefits and the implicit employer subsidies equals the total Actuarial Accrued Liability (AAL) under GASB 45.

To our knowledge, the summary below covers all Employer OPEB which result in material AAL under GASB 45, except for benefits provided through Oregon PERS. If additional retiree benefits may result in AAL under GASB 45, the results of this valuation may need to be revised.

EXPLICIT EMPLOYER BENEFITS

Eligibility

Retirees meeting the following criteria:

- Hired before January 1, 2002 for Administrator and Supervisory Employees, and retiring with at least 8 consecutive years of service.
- Hired before July 1, 2001 for Licensed Employees, and retiring with at least 15 consecutive years of service.

- Hired before July 1, 2001 for Classified and Confidential Employees, and retiring with at least 20 consecutive years of service.
- Retired from active service while receiving a pension benefit from Oregon PERS.

Health Care Benefits

Classified and Confidential retirees are eligible to receive a monthly benefit of up to \$450 per month towards payment of health care premiums. Monthly health care premiums in excess of \$450 must be paid by the retiree.

Licensed, Administrator and Supervisory retirees are eligible to receive a monthly benefit of up to \$650 per month towards payment of health care premiums. Monthly health care premiums in excess of \$650 must be paid by the retiree. The amount of the monthly benefit is prorated for part-time service.

Benefits for Administrator, Classified, Confidential and Licensed retirees continue for a maximum of 7 years. All benefits cease at age 65 or upon death of the retiree.

IMPLICIT EMPLOYER SUBSIDIES***Eligibility***

All employees of the Employer covered under OEBC medical benefits at the time of retirement. Employees must retire from active service while eligible for a pension benefit payable immediately under Oregon PERS.

Health Care Benefits

Retirees and their dependents under age 65 are allowed to continue the health care coverages received prior to retirement. Premiums for retirees are tiered and based upon the premium rates available to active employees. The retiree is responsible for any portion of the premiums not paid by the Employer.

The implicit employer subsidy is measured as the expected health care cost per retiree and dependent, less the gross premiums charged by the insurance carrier for that coverage. The subsidy is only measured for retirees and spouses younger than age 65, at which point such retirees and spouses typically become eligible for Medicare.

We are not aware of any additional implicit employer OPEB subsidies which result in GASB 45 AAL.

OPEB COSTS AND PREMIUMS

The following methods were used to establish costs and premiums for purposes of measuring the Employer's OPEB liability.

EXPLICIT EMPLOYER BENEFITS

Health Care Premium Per Person per Month

For the period October 2011 – September 2012, current Employer-paid premiums for retirees under age 65 were based on actual retiree data. For eligible future retirees, Employer-paid premiums were modeled using an average monthly premium of \$523 per retiree and \$601 per spouse. These Employer-paid amounts are subject to the monthly caps of \$650 for Licensed, Administrator, and Supervisory retirees and \$450 for Classified and Confidential retirees.

IMPLICIT EMPLOYER SUBSIDIES

Expected Health Care Costs Per Person per Month

For the period October 2011 – September 2012:

	Expected Monthly Cost – Medical and Rx			
	Male Retirees	Female Retirees	Male Spouses	Female Spouses
Age 50	\$ 590	\$ 658	\$ 429	\$ 482
Age 55	688	720	572	579
Age 60	848	833	764	703
Age 64	1,044	993	947	841

For the period October 2011 – September 2012:

	Expected Monthly Cost – Dental and Vision			
	Male Retirees	Female Retirees	Male Spouses	Female Spouses
Age 50	\$ 73	\$ 81	\$ 61	\$ 66
Age 55	79	84	65	69
Age 60	83	88	68	71
Age 64	85	88	70	72

Expected health care costs were developed using a composite of the premiums due for active and retired members electing coverage as of October 1, 2011. The effective date of the premiums provided as of the valuation date was October 1, 2011.

Milliman's Health Cost Guidelines were used to allocate costs by age and gender. Retirees' costs include a load for expected health status of retirees relative to active employees and spouses.

Average Gross Premium Per Person per Month

For the period October 2011 – September 2012, current medical and prescription drug premiums due for retirees and their spouses were modeled using an average monthly premiums of \$448 per retiree and \$547 per spouse. Dental and vision premiums were modeled using average monthly premiums of \$75 per retiree and \$54 per spouse.

ACTUARIAL COST METHOD

The actuarial cost method used is the **Projected Unit Credit Cost Method**.

The **Present Value of Benefits** is the present value of projected benefits (projected costs less retiree contributions) discounted at the valuation interest rate.

The **Actuarial Accrued Liability (AAL)** is the present value of benefits that are attributed to past service only. The portion attributed to future employee service is excluded. For retirees, this is equal to the present value of benefits. For active employees, this is equal to the present value of benefits prorated by service to date over service at the expected retirement age.

The **Normal Cost** is that portion of the Employer-provided benefit attributable to employee service in the current year. Employees are assumed to have an equal portion of the present value of benefits attributed to each year of service from date of hire to expected retirement age.

The **Annual Required Contribution (ARC)** is the amount the Employer would be required to report as an expense for a given fiscal year under GASB 45. The ARC is equal to the Normal Cost plus an amount to amortize the unfunded AAL as a level percentage of payroll over 15 years on a rolling basis. Note, the ARC represents an accounting expense, but the Employer is not required to contribute the ARC to a separate trust. If the Employer does not set aside funds equal to the ARC each year, then the ARC (less actual benefit payments) will accumulate as a liability (Net OPEB Obligation) on the Employer's balance sheet.

ACTUARIAL ASSUMPTIONS

Economic Assumptions

Discount Rate (liabilities)	4.0% for unfunded liabilities, based on the expected long-term annual investment returns for Oregon's Local Government Investment Pool and comparable investment vehicles.
Health Cost Trend	<p>Medical and prescription drugs: 8.4% in the first year (October 1, 2012 premiums compared with October 1, 2011 premiums), 7.3% in the second year, 6.2% in the third year, then grading down from 5.9% to 5.0% over the next 28 years, and 5.0% thereafter.</p> <p>Dental and vision: 5.0% per year.</p> <p>Health cost trend affects both the projected health care costs as well as the projected health care premiums.</p>
Annual Payroll Increases	3.75%, compounded annually for purposes of amortizing unfunded AAL. This assumption is based on the Oregon PERS valuation assumptions as of December 31, 2009.

Demographic Assumptions

Demographic assumptions regarding retirement, mortality, and turnover were based on Oregon PERS valuation assumptions as of December 31, 2010.

Mortality	RP-2000 healthy white collar male and female mortality tables, set back one year for participants. RP-2000 healthy white collar male and female mortality tables for beneficiaries. Mortality is projected on a generational basis using Scale AA for males and females.
Disability	Not used
Withdrawal	Based on Oregon PERS assumptions with no select period for OPSRP participants. Annual rates are based on age:

Age	Annual Rates
30	4.32%
35	3.29
40	2.63
45	2.21
50	1.90

Retirees who meet the date of hire requirements for explicit Employer-paid health care coverage are assumed not to terminate employment prior to retirement after reaching age 45.

Retirement

Based on Oregon PERS assumptions. Annual rates are based on age, Tier/OPSRP, and duration of service.

Age	Annual Rates					
	Tier 1 / Tier 2			OPSRP		
	< 15 years	15 – 29 years	30+ Years	< 15 years	15 – 29 years	30+ Years
50			27.00%			
51			27.00			
52			40.00			
53			40.00			
54			35.00			
55	1.00%	8.00%	30.00	1.00%	5.00%	5.00%
56	1.00	6.00	25.00	1.00	4.00	5.00
57	1.00	5.00	25.00	1.50	3.00	7.50
58	2.00	13.00	25.00	1.50	3.00	35.00
59	2.00	13.00	25.00	2.50	3.00	25.00
60	3.00	13.00	20.00	4.00	3.75	20.00
61	5.00	13.00	20.00	4.00	5.00	20.00
62	10.00	20.00	30.00	7.00	12.00	30.00
63	9.00	16.00	20.00	6.00	10.00	20.00
64	9.00	16.00	20.00	6.00	10.00	20.00
65+	100.00	100.00	100.00	100.00	100.00	100.00

Excluded employees

Temporary or part-time employees not eligible to participate in Oregon PERS or not eligible for health care benefits were generally excluded from valuation.

Part-time employees scheduled to work fewer than 600 hours per year were excluded from valuation.

Past PERS Service

PERS service as of the valuation date was generally estimated based upon the elapsed time from date of hire, using date of hire and PERS tier info provided by the Employer. Note that additional assumptions made for incomplete or inconsistent data are described below. Employees in the PERS waiting period were assumed to participate on October 1, 2011. OPSRP members who work less than full-time were assumed to have earned past service based on their current full-time equivalent percentage.

Future PERS Service

Projected PERS service for retirement eligibility is generally assumed to accrue at a rate of 1.0 per year until retirement. OPSRP members who work less than full-time were assumed to earn a partial year of service for each year based on their current full-time equivalent percentage.

Future Retiree Coverage	<p>100% of active members eligible for Employer-paid health care coverage were assumed to elect coverage upon retirement until age 65. 60% of Licensed, Administrator and Supervisory members eligible for Employer-paid health care who elect coverage upon retirement were also assumed to elect spouse coverage until age 65.</p> <p>70% of all other active members were assumed to elect coverage upon retirement until age 65. 50% of members who elect coverage upon retirement were also assumed to elect spouse coverage until the spouse reaches age 65.</p>
Spouse Age	Female spouses were assumed to be two years younger than male spouses.

Data Processing

Where we found limited amounts of census data provided by the Employer missing or internally inconsistent, the following assumptions were made. Data deficiencies, if any, which we deemed could be material to the overall valuation results were generally reported to the Employer with a request to be fixed and resubmitted. PERS Tier data found to be inconsistent with dates of hire were processed under the following assumptions, which we determined to be reasonable, conservative approximations in absence of complete data from Oregon PERS.

Missing Spouse Data	Female spouses were assumed to be two years younger than male spouses.
Missing Dates of Hire	<p>Based upon available PERS and OEGB data, members were assumed to be hired at the following ages:</p> <p>Tier 1 Classified: Age 35</p> <p>Tier 1 all others: Age 30</p> <p>Tier 2 / OPSRP Licensed: Age 33</p> <p>Tier 2 / OPSRP all others: Age 38</p>
Missing Tier Data	Members were assumed to be in the tier into which an age 32 hire date falls. Tier 1 participants were hired before January 1, 1996, Tier 2 participants were hired between January 1, 1996 and August 28, 2003 and OPSRP participants were hired after August 28, 2003.
Inconsistent Tier / PERS Date	Members were assumed to be originally hired with a PERS-eligible employer based upon the Missing Dates of Hire assumption above, except that the date of hire will not fall outside the dates associated with the indicated tier.
PERS Entry Date	Once a consistent tier and date of hire are determined, the date of entry into PERS is assumed to be the first of the month next following six months from date of hire.

Working Retirees Retirees who appeared to be in active employment were assumed to re-retire immediately upon the valuation date.

Part-time Employees Part-time employees were assumed to work at the provided full-time equivalent schedule. Part-time employees for whom no reliable scheduled hours data was provided were assumed to work at 75% of full-time equivalence.

Changes since Prior Valuation

The following items have changed since our prior valuation:

Expected Claims and Premiums Updated to reflect changes in available benefits and premium levels. If applicable, expected retiree and dependent costs were updated to reflect current health cost guidelines and adjusted so that retirees electing coverage were generally assumed to have higher morbidity (claims rates) at a given age than active members or covered dependents.

Mortality, Retirement and Withdrawal Rates Updated to reflect assumptions used in the Oregon PERS December 31, 2010 actuarial valuation.

SUMMARY OF PARTICIPANT DATA

The following were included in our analysis as of October 1, 2011 based on information provided by the Employer.

Number of Members	
Active	519
Retired Members	79
Spouses of Ineligible Retirees	<u>7</u>
Total	605
Spouses of Eligible Retirees	33
Average Age	
Active	46.2
Retired	61.4
Average Years of Service – Actives	
PERS Service	11.4
Employer-only Service	10.6
Expected Future Service	13.4

	Active Members		Retired Members*
Count as of October 1, 2009	553	Count as of October 1, 2009	89
Retired with Benefits	(6)	Retired with Benefits	6
Terminated without Benefits	(54)	Benefits Ceased	(12)
New Hires / Newly Eligible	26	Newly Covered (generally spouses of former retirees)	3
Ineligible for Benefits Valued	0	Ineligible for Benefits Valued	0
Count as of October 1, 2011	519	Count as of October 1, 2011	86

* Includes spouses of ineligible retirees.

DISTRIBUTION OF ACTIVE MEMBERS BY AGE AND SERVICE

ADMINISTRATOR / CONFIDENTIAL

AGE	Years of PERS Service							Total
	0 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 & Up	
Under 25	0	0	0	0	0	0	0	0
25 to 29	0	0	0	0	0	0	0	0
30 to 34	0	2	0	0	0	0	0	2
35 to 39	0	2	1	0	0	0	0	3
40 to 44	0	3	3	0	0	0	0	6
45 to 49	0	2	2	4	0	0	0	8
50 to 54	0	0	1	0	2	1	0	4
55 to 59	0	0	0	0	2	1	0	3
60 to 64	0	0	0	2	0	0	0	2
65 & Up	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	0	9	7	6	4	2	0	28

LICENSED / CERTIFIED

AGE	Years of PERS Service							Total
	0 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 & Up	
Under 25	1	0	0	0	0	0	0	1
25 to 29	22	0	0	0	0	0	0	22
30 to 34	20	13	0	0	0	0	0	33
35 to 39	14	12	14	1	0	0	0	41
40 to 44	11	10	13	7	1	0	0	42
45 to 49	7	8	5	11	8	0	0	39
50 to 54	3	6	10	5	15	12	2	53
55 to 59	0	2	5	11	11	10	6	45
60 to 64	1	2	2	3	0	0	1	9
65 & Up	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>3</u>
Total	79	53	50	38	36	22	10	288

CLASSIFIED

AGE	Years of PERS Service							Total
	0 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 & Up	
Under 25	4	0	0	0	0	0	0	4
25 to 29	16	0	0	0	0	0	0	16
30 to 34	4	1	2	0	0	0	0	7
35 to 39	4	1	2	0	0	0	0	7
40 to 44	12	10	3	1	0	0	0	26
45 to 49	17	11	11	6	1	0	0	46
50 to 54	3	10	9	5	2	0	0	29
55 to 59	8	6	10	8	7	3	1	43
60 to 64	6	0	2	5	6	2	1	22
65 & Up	<u>1</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>
Total	75	40	39	26	16	5	2	203