GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

CITY OF KALAMAZOO POSTRETIREMENT WELFARE BENEFITS PLAN

ACTUARIAL VALUATION REPORT

AS OF JANUARY 1, 2012

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May 10, 2013

Mr. Tom Skrobola
Chief Financial Officer
City of Kalamazoo
Postretirement Welfare Benefits Plan
241 W. South Street
Kalamazoo, Michigan 49007

Dear Mr. Skrobola:

Submitted in this report are the results of an Actuarial Valuation of the assets and liabilities associated with the employer financed retiree health benefits provided by the City of Kalamazoo. The date of the valuation was January 1, 2012 effective for the fiscal years January 1, 2012 to December 31, 2012 and January 1, 2013 to December 31, 2013.

This report was prepared at the request of the City of Kalamazoo and is intended for use by the City of Kalamazoo and those designated or approved by the City. This report may be provided to parties other than the City of Kalamazoo only in its entirety and only with the permission of the City.

The actuarial calculations were prepared for purposes of complying with the requirements of Statement No. 45 of the Governmental Accounting Standards Board (GASB). In addition, we have included information which may be helpful if there is a trust requiring a GASB Statement No. 43 disclosure. The calculations reported herein have been made on a basis consistent with our understanding of these accounting standards. This report should not be relied on for any other purpose. Determinations of the liability associated with the benefits described in this report for purposes other than satisfying the City of Kalamazoo's financial reporting requirements may be significantly different than the values shown in this report.

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.

The valuation was based upon information furnished by the City of Kalamazoo, concerning retiree health benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal and year-to-year consistency with the last valuation, but did not otherwise audit the data. We are not responsible for the accuracy or completeness of the information provided by the City of Kalamazoo.

To the best of our knowledge the information contained in this report is accurate and fairly presents the actuarial position of the City of Kalamazoo Postretirement Welfare Benefits Plan as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. The undersigned are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. The signing actuaries are independent of the plan sponsor.

Respectfully submitted,

Bonita J. Wurst

Bonnie Wurst, ASA, EA, MAAA

Curtis Powell, EA, MAAA

BW/CLP:ah

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Annual Required Contribution and OPEB Cost

This report presents the Annual Required Contribution (ARC), one component of the annual Other Postemployment Benefits (OPEB) cost required to be recognized by the plan sponsor for purposes of complying with the accounting requirements of the Governmental Accounting Standards Board (GASB) Statement No. 45. In addition, the plan may need to comply with GASB Statement No. 43. Please consult with legal counsel and your auditors to determine whether you have a plan for GASB Statement No. 43 purposes.

We have calculated the Annual Required Contribution (ARC) for the fiscal years beginning January 1, 2012 and January 1, 2013. Below is a summary of the results. In the first year GASB Statement No. 45 is adopted, the annual OPEB cost is equal to the ARC. In subsequent years, if there is a net OPEB obligation (NOO, see below), the annual OPEB cost is equal to the ARC for the fiscal year plus one year's interest on the net OPEB Obligation plus an adjustment to the ARC. Actual claims paid on behalf of retirees may be treated as employer contributions in relation to the ARC and act to reduce the NOO.

Annual Required Contribution	ARC	Estimated Claims Paid for Retirees
Fiscal Year Beginning 2012	$14,756,483	$ 7,724,270
Fiscal Year Beginning 2013	14,615,688	9,088,991

For additional details please see the Section titled "Valuation Results."

Additional OPEB Reporting Requirements – Net OPEB Obligation

In addition to the annual cost described on the previous page, employers will have to disclose a Net OPEB Obligation (or asset). The NOO is the cumulative difference between annual OPEB cost and annual employer contributions in relation to the ARC accumulated from the implementation of Statement No. 45. The NOO is zero as of the beginning of the fiscal year that Statement No. 45 is implemented, unless the employer chooses to recognize a beginning balance. The requirements for determining the employer's contributions in relation to the ARC are described in paragraph 13 g. of Statement No. 45. Additional information required to be disclosed in the employer's financial statements is detailed in paragraphs 24 through 27 of Statement No. 45.

Liabilities and Assets

1. Present Value of Future Benefit Payments	$234,767,389
2. Actuarial Accrued Liability	190,631,174
3. Plan Assets	0
4. Unfunded Actuarial Accrued Liability (3) – (2)	190,631,174
5. Funded Ratio (3)/(2)	0.0%

The Present Value of Future Benefit Payments (PVFB) is the present value of all benefits projected to be paid from the plan for past and future service. The Actuarial Accrued Liability is the portion of the PVFB allocated to past service by the Plan's funding method (see the Section titled "Actuarial Cost Method and Actuarial Assumptions").

SECTION A

VALUATION RESULTS

DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTIONS

Contributions for	Development of the Annual Required Contribution
	Fiscal Year Beginning 2012
Employer Normal Cost	$ 3,947,039
Amortization of Unfunded Actuarial Accrued Liability	10,809,444
Annual Required Contribution (ARC)	$14,756,483
	Fiscal Year Beginning 2013
Annual Required Contribution (ARC)	$14,615,688

The unfunded actuarial accrued liabilities were amortized as a level dollar amount over a period of 30 years for the 2012 fiscal year and 29 years for the 2013 fiscal year. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with the GASB requirements.

DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY AS OF JANUARY 1, 2012

A. Present Value of Future Benefits	
i) Retirees and Beneficiaries*	$106,930,932
ii) Vested Terminated Members	0
iii) Active Members	127,836,457
Total Present Value of Future Benefits	$234,767,389
B. Present Value of Future Normal Costs	44,136,215
C. Actuarial Accrued Liability (A.-B.)	190,631,174
D. Actuarial Value of Assets	0
E. Unfunded Actuarial Accrued Liability (C.-D.)	$190,631,174
F. Funded Ratio (D./C.)	0.0%

* Includes additional liability due to 159 participants who retired during 2012 under the Early Retirement Incentive (ERI) program.

The Unfunded Actuarial Accrued Liability (UAAL) is not booked as an expense all in one year and does not appear in the Employer's Statement of Net Assets. Nevertheless, it is reported in the Notes to the Financial Statements and in the Required Supplementary Information. These are information sections within the employer's financial statements.

COMMENTS

COMMENT A: One of the key assumptions used in any valuation of the cost of postemployment benefits is the rate of return on the assets that will be used to pay Plan benefits. Higher assumed investment returns will result in a lower ARC. Lower returns will tend to increase the computed ARC. As requested by the Plan Sponsor we have calculated the liability and the resulting ARC using an assumed rate of investment return of 4.00%. A 4.00% assumed rate of investment might be appropriate when determining the liabilities of the plan if the Plan Sponsor does not pre-fund the ARC (assuming 4.00% is deemed a reasonable return projection for general assets). In the previous valuation, the investment return was assumed to be 4.50%.

COMMENT B: The ARC shown in this year's report is lower than what was expected based on the previous (2010) valuation report completed by the prior Actuary. Better than expected medical claim experience produced base retiree health care premiums that were considerably lower than expected. The ultimate trend was also lowered to be consistent with other economic assumptions.

COMMENT C: We adjusted the mortality assumption to be consistent with the pension valuation. This is a reversal of the change made in the last valuation. This is not because we disagree with the prior approach, but rather to apply the same mortality rates to the same individuals in pension and OPEB valuations, respectively. The mortality tables for both plans will be updated after completion of the next experience analysis.

COMMENT D: There were a number of assumption changes since the previous valuation. In addition to the changes in the assumed rate of investment return, medical trend, and mortality described above, changes were also made to the following assumptions: participation rates, duty disability rates, election of one-person or two-person/family coverage rates, and the rates used to distribute the average premium by age and sex. Where applicable, the assumptions in this valuation are consistent with the assumptions used for the City of Kalamazoo pension plan.

COMMENT E: Based on the number of plan members as of this valuation, the Plan Sponsor is required by GASB to perform actuarial valuations at least biennially unless there are significant changes in the OPEB.

COMMENT F: The 2012 Annual Required Contribution shown includes amortization of the unfunded actuarial accrued liability over 30 years. This is the maximum time period permitted by the GASB Statement No. 45. A shorter amortization period would result in a higher ARC.

COMMENT G: The Health plan closed to new hires for most groups sometime between 2009 and 2011 (see section titled "Summary of Benefits" for more details). As such, the period to amortize the unfunded liability was changed from an open 30-year period to a closed 30-year period. This is consistent with GASB Statement No. 45 guidelines.

COMMENT H: We estimated the additional liability attributable to the early retirement window offered at the City during the 2012 fiscal year. Data provided by the City included 159 new 2012 retirees who opted to receive health care through the City. The additional liability is being amortized over a 30-year period in the Annual Required Contribution (ARC). The Government Finance Officers Association recommends that liability created by Early Retirement Incentives (ERI) be amortized over a shorter time period such as 5-10 years. There were also approximately 36 retirees electing to retire during 2013 under the early retirement window; the actual experience will be reflected in the next valuation.

COMMENT I: Rates have been loaded 1.25% to reflect expected future excise tax liability due to projected "Cadillac Plan" status. This adjustment is consistent with the previous valuation. Other changes related to the Patient Protection and Affordable Care Act are reflected to the extent they are already implemented in the Plan.

COMMENT J: There appears to be no margin for future mortality improvement in the current mortality assumption. We anticipate updated mortality rates including a margin for mortality improvements will be recommended in conjunction with the next experience analysis. This will likely put upward pressure on liabilities. The mortality table used in this valuation is consistent with the table used in the pension valuation. Detail on this assumption can be found on page E-3 in the section titled "Actuarial Cost Method and Actuarial Assumptions".

SECTION B

RETIREE PREMIUM RATE DEVELOPMENT

RETIREE PREMIUM RATE DEVELOPMENT

Background

We understand that currently, eligible City retirees (and eligible spouses) receive benefits from a number of health care plans, including the self-insured Blue Cross Blue Shield (BCBS) Traditional plans and the self-insured Community Blue PPO plans.

Rate Development

For the self-insured medical plans, initial per capita costs were developed separately for pre-65 and post-65 retirees using medical and prescription drug claims experience from January 2010 to December 2012 from BCBS in conjunction with exposure data for the active and retired members of the health care program. These medical and prescription drug claims were projected on an incurred claim basis, adjusted for plan design changes, large claims and loaded for administrative and stop-loss expenses.

The initial medical and drug premium rates used in the valuation are a weighted average cost of the three-year experience period (2010-2012) to smooth out any large year to year fluctuations.

One set of current retiree rates were developed based on the plan mix as of the valuation date. We concluded that this approach would not produce materially different results than using rates which were developed for each plan.

Most retiree plans are closed to future retirees. The plans that remain open include suffixes 933, 934, 944, 945, 966, 967, 973, 974, 975, 984, and 985. Depending on age (pre-65 or post-65) and active group membership, future retirees will be placed into one of these suffixes. We have developed separate premium rates for these future retirees in order to reflect the benefit differences.

RETIREE PREMIUM RATE DEVELOPMENT

Age graded and sex distinct premiums are utilized by this valuation. The initial costs developed are appropriate for the unique age and sex distribution currently existing. Over the future years covered by this valuation, the age and sex distribution will most likely change. Therefore, our process "distributes" the average premium over all age/sex combinations and assigns a unique premium for each combination. This process more accurately reflects health care costs in the retired population over the projection period.

The tables below show the resulting combined medical and prescription drug one-person monthly premiums at select ages. The premium (or per capita costs) rates shown below were used in this valuation of the plan and reflect the use of age grading.

For Those Not Eligible for Medicare (Pre-65)				
	Future Retirees		Current Retirees	
Age	Male	Female	Male	Female
40	$ 276.45	$ 433.12	$ 338.22	$ 529.91
50	508.16	575.78	621.72	704.44
60	834.37	802.02	1,020.82	981.24
64	971.17	900.18	1,188.19	1,101.34

For Those Eligible for Medicare (Post-65)				
	Future Retirees		Current Retirees	
Age	Male	Female	Male	Female
65	$ 213.55	$ 196.65	$ 321.79	$ 296.33
75	273.47	242.69	412.08	365.71
85	304.94	267.72	459.50	403.42

The undersigned is a Member of the American Academy of Actuaries (MAAA) and meets the Qualification Standards of the American Academy of Actuaries to certify the per capita retiree health care rates shown above.

John Mallows

John Mallows, FSA, MAAA

SECTION C

SUMMARY OF BENEFITS

Summary of Benefit Provisions for the Retiree Health Care Plan

Group Name AFSCME Union employees - City of Kalamazoo

(A) Leaving Employment as a Result of	(B) Eligibility for Pension Benefit	(C) Eligibility for Retiree Health Benefit (if different from pension benefit)	(D) When do Retiree Health Benefits Commence?	(E) Coverage Provided by Employer: Retiree	(F) Coverage Provided by Employer: Spouse	(G) Retiree Health Care Provider(s)	(H) Type of Insurance	(I) Third Party Administrator	(J) Retiree Share of Cost for: Retiree	(K) Retiree Share of Cost for: Spouse (while Retiree is alive)	(L) Retiree Share of Cost for: Spouse (after Retiree's death)
Normal Retirement **(Unreduced pension benefits)**	Age 57 with 25 years of service or age 62 with 9 years	Retiree & spouse if hired before 9/12/2011 Healthcare savings account if hired after 9/12/2011	Upon retirement	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Early Retirement **(Reduced pension benefits)**	Age 55 with at least 15 years of service	Retiree & spouse if hired before 9/12/2011 Healthcare savings account if hired after 9/12/2011	Upon retirement	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Deferred Vested Termination	At age 62 with at least 9 years	None for retiree & spouse if hired before 9/12/2011 Healthcare savings account if hired after 9/12/2011	N/A								
Non-Duty Disability	After 9 years of service	Must meet normal age & service requirements Healthcare savings account if hired after 9/12/2011	Upon retirement if eligible	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Duty Disability	Given credit to voluntary age & service requirements	Retiree & spouse if hired before 9/12/2011 Healthcare savings account if hired after 9/12/2011	Pension Board Approval	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Non-Duty Death-in-Service	If vested	If age or service eligible	Day prior to death		Medical & Drug						100%
Duty Death-in-Service	Same as Duty disability										

Comment A: The retiree pays the active contribution rates in the year they retire. If the retiree has less than 25 years of service at retirement, then the retiree will continue to pay the increasing active contribution rate in future years until their contribution amount is 150% of the amount the retiree paid in the year of retirement, at which point the retiree contribution amount is frozen.
Comment B: Retirees are eligible for a $1,000 lump sum death benefit, the plan is fully insured.
Comment C: Retirees are not reimbursed by the City for Medicare Part A or Part B Premiums.
Comment D: There are retirees currently opting out of the retiree health care plan, they may re-enroll at open enrollment or with a qualifying insurance event, there is no stipend for waiving coverage.

Summary of Benefit Provisions for the Retiree Health Care Plan

Group Name Non-Union Employees - City of Kalamazoo

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
				Coverage Provided by Employer					Retiree Share of Cost for		
Leaving Employment as a Result of	**Eligibility for Pension Benefit**	**Eligibility for Retiree Health Benefit (if different from pension benefit)**	**When do Retiree Health Benefits Commence?**	**Retiree**	**Spouse**	**Retiree Health Care Provider(s)**	**Type of Insurance**	**Third Party Administrator**	**Retiree**	**Spouse (while Retiree is alive)**	**Spouse (after Retiree's death)**
Normal Retirement **(Unreduced pension benefits)**	Age 57 with 25 years of service or age 62 with 10 years	Retiree & spouse if hired before 6/1/2009 Healthcare savings account if hired after 6/1/2009	Upon retirement	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Early Retirement **(Reduced pension benefits)**	Age 55 with at least 15 years of service	Retiree & spouse if hired before 6/1/2009 Healthcare savings account if hired after 6/1/2009	Upon retirement	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Deferred Vested Termination	At age 62 with at least 10 years (5 years for Exempt hired before 9/1/2010)	None for retiree & spouse if hired before 6/1/2009 Healthcare savings account if hired after 6/1/2009	N/A								
Non-Duty Disability	After 10 years of service	Must meet normal age & service requirements Healthcare savings account if hired after 6/1/2009	Upon retirement if eligible	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Duty Disability	Given credit to voluntary age & service requirements	Retiree & spouse if hired before 6/1/2009 Healthcare savings account if hired after 6/1/2009	Pension Board Approval	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Non-Duty Death-in-Service	If vested	If age or service eligible	Day prior to death		Medical & Drug						100%
Duty Death-in-Service	Same as Duty disability										

Comment A: The retiree pays the active contribution rates in the year they retire. The retiree will continue to pay the increasing active contribution rate in future years until their contribution amount is 150% of the amount the retiree paid in the year of retirement, at which point the retiree contribution amount is frozen.
Comment B: Retirees are eligible for a $1,000 lump sum death benefit, the plan is fully insured.
Comment C: Retirees are not reimbursed by the City for Medicare Part A or Part B Premiums.
Comment D: There are retirees currently opting out of the retiree health care plan, they may re-enroll at open enrollment or with a qualifying insurance event, there is no stipend for waiving coverage.

Summary of Benefit Provisions for the Retiree Health Care Plan

Group Name Public Safety - KPSA & KPSOA - City of Kalamazoo

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
				Coverage Provided by Employer					**Retiree Share of Cost for**		
Leaving Employment as a Result of	**Eligibility for Pension Benefit**	**Eligibility for Retiree Health Benefit (if different from pension benefit)**	**When do Retiree Health Benefits Commence?**	**Retiree**	**Spouse**	**Retiree Health Care Provider(s)**	**Type of Insurance**	**Third Party Administrator**	**Retiree**	**Spouse (while Retiree is alive)**	**Spouse (after Retiree's death)**
Normal Retirement **(Unreduced pension benefits)**	25 years of service or age 50 with 10 years of service	Retiree & spouse if hired before 9/7/2011 Healthcare savings account if hired after 9/7/2011	Upon retirement	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Early Retirement **(Reduced pension benefits)**	20 years of service	Retiree & spouse if hired before 9/7/2011 Healthcare savings account if hired after 9/7/2011	When they would have completed 25 years of service	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Deferred Vested Termination	At age 50 with at least 10 years	None for retiree & spouse if hired before 9/7/2011 Healthcare savings account if hired after 9/7/2011	N/A								
Non-Duty Disability	After 10 years of service	Must meet normal age & service requirements Healthcare savings account if hired after 9/7/2011	Pension Board Approval	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Duty Disability	Given 25 years of service	Retiree & spouse if hired before 9/7/2011 Healthcare savings account if hired after 9/7/2011	Pension Board Approval	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Non-Duty Death-in-Service	If vested	If age or service eligible	Day prior to death		Medical & Drug						100%
Duty Death-in-Service	Same as Duty disability										

Comment A: The retiree pays the active contribution rates in the year they retire. The retiree will continue to pay the increasing active contribution rate in future years until their contribution amount is 150% of the amount the retiree paid in the year of retirement, at which point the retiree contribution amount is frozen.
Comment B: Retirees are eligible for a $1,000 lump sum death benefit, the plan is fully insured.
Comment C: Retirees are not reimbursed by the City for Medicare Part A or Part B Premiums.
Comment D: There are retirees currently opting out of the retiree health care plan, they may re-enroll at open enrollment or with a qualifying insurance event, there is no stipend for waiving coverage.

Summary of Benefit Provisions for the Retiree Health Care Plan

Group Name ATU Union Employees - City of Kalamazoo

(A) Leaving Employment as a Result of	(B) Eligibility for Pension Benefit	(C) Eligibility for Retiree Health Benefit (if different from pension benefit)	(D) When do Retiree Health Benefits Commence?	(E) Coverage Provided by Employer: Retiree	(F) Coverage Provided by Employer: Spouse	(G) Retiree Health Care Provider(s)	(H) Type of Insurance	(I) Third Party Administrator	(J) Retiree Share of Cost for: Retiree	(K) Retiree Share of Cost for: Spouse (while Retiree is alive)	(L) Retiree Share of Cost for: Spouse (after Retiree's death)
Normal Retirement **(Unreduced pension benefits)**	Age 57 with 25 years of service or age 62 with 10 years	Retiree & spouse if hired before 9/7/2011 Healthcare savings account if hired after 9/7/2011	Upon retirement	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Early Retirement **(Reduced pension benefits)**	Age 55 with at least 15 years of service	Retiree & spouse if hired before 9/7/2011 Healthcare savings account if hired after 9/7/2011	Upon retirement	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Deferred Vested Termination	At age 62 with at least 10 years	None for retiree & spouse if hired before 9/7/2011 Healthcare savings account if hired after 9/7/2011	N/A								
Non-Duty Disability	After 10 years of service	Must meet normal age & service requirements Healthcare savings account if hired after 9/7/2011	Upon retirement if eligible	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Duty Disability	Given credit to voluntary age & service requirements	Retiree & spouse if hired before 9/7/2011 Healthcare savings account if hired after 9/7/2011	Pension Board Approval	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Non-Duty Death-in-Service	If vested	If age or service eligible	Day prior to death		Medical & Drug						100%
Duty Death-in-Service	Same as Duty disability										

Comment A: The retiree pays the active contribution rates in the year they retire, payment does not increase after retirement.
Comment B: Retirees are eligible for a $1,000 lump sum death benefit, the plan is fully insured.
Comment C: Retirees are not reimbursed by the City for Medicare Part A or Part B Premiums.
Comment D: There are retirees currently opting out of the retiree health care plan, they may re-enroll at open enrollment or with a qualifying insurance event, there is no stipend for waiving coverage.

Summary of Benefit Provisions for the Retiree Health Care Plan

Group Name KMEA Union Employees - City of Kalamazoo

(A) Leaving Employment as a Result of	(B) Eligibility for Pension Benefit	(C) Eligibility for Retiree Health Benefit (if different from pension benefit)	(D) When do Retiree Health Benefits Commence?	(E) Coverage Provided by Employer: Retiree	(F) Coverage Provided by Employer: Spouse	(G) Retiree Health Care Provider(s)	(H) Type of Insurance	(I) Third Party Administrator	(J) Retiree Share of Cost for: Retiree	(K) Retiree Share of Cost for: Spouse (while Retiree is alive)	(L) Retiree Share of Cost for: Spouse (after Retiree's death)
Normal Retirement **(Unreduced pension benefits)**	Age 57 with 25 years of service or age 62 with 10 years	Retiree & spouse if hired before 6/1/2009 Healthcare savings account if hired after 6/1/2009	Upon retirement	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Early Retirement **(Reduced pension benefits)**	Age 55 with at least 15 years of service	Retiree & spouse if hired before 6/1/2009 Healthcare savings account if hired after 6/1/2009	Upon retirement	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Deferred Vested Termination	At age 62 with at least 10 years (8 years if hired before 1/1/2009)	None for retiree & spouse if hired before 6/1/2009 Healthcare savings account if hired after 6/1/2009	N/A								
Non-Duty Disability	After 10 years of service (8 years if hired before 1/1/2009)	Must meet normal age & service requirements Healthcare savings account if hired after 6/1/2009	Upon retirement if eligible	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Duty Disability	Given credit to voluntary age & service requirements	Retiree & spouse if hired before 6/1/2009 Healthcare savings account if hired after 6/1/2009	Pension Board Approval	Medical & Drug Life Life	Medical & Drug	Community Blue-BCBS	PPO	BCBS	$60/mo See Comment A	$75/mo. See Comment A	100%
Non-Duty Death-in-Service	If vested	If age or service eligible	Day prior to death		Medical & Drug						100%
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Comment A: The retiree pays the active contribution rates in the year they retire. The retiree will continue to pay the increasing active contribution rate in future years until their contribution amount is 150% of the amount the retiree paid in the year of retirement, at which point the retiree contribution amount is frozen.
Comment B: Retirees are eligible for a $1,000 lump sum death benefit, the plan is fully insured.
Comment C: Retirees are not reimbursed by the City for Medicare Part A or Part B Premiums.
Comment D: There are retirees currently opting out of the retiree health care plan, they may re-enroll at open enrollment or with a qualifying insurance event, there is no stipend for waiving coverage.

SECTION D

SUMMARY OF PARTICIPANT DATA

CITY OF KALAMAZOO
ACTIVE MEMBERS AS OF JANUARY 1, 2012
BY AGE AND YEARS OF SERVICE *

	Years of Service to Valuation Date							Totals
Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30 Plus**	**No.**
20-24	6							6
25-29	32	16						48
30-34	17	24	9	1				51
35-39	8	14	38	11	2			73
40-44	12	14	38	42	24	1		131
45-49	7	12	22	18	42	10	1	112
50-54	7	8	23	26	41	21	10	136
55-59	4	5	12	17	22	14	24	98
60-64	2	3	8	7	13	5	6	44
65 & Over	5	5				1		11
Totals	**100**	**101**	**150**	**122**	**144**	**52**	**41**	**710**

** This exhibit excludes 8 individuals who are not eligible for retiree health insurance at retirement. A Health Savings Account is available instead.*

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age:	45.9	years
Service:	15.5	years

CITY OF KALAMAZOO
INACTIVE MEMBERS AS OF JANUARY 1, 2012
BY AGE AND COVERAGE TYPE

Number of Retiree and Beneficiary Contracts

	Opt-Out/ Ineligible	One Person Coverage	Two Person Coverage*	Total
Male	71	112	342	525
Female	122	86	43	251
Total	193	198	385	776

** Includes family coverage.*

Age	Current Retirees Number of Those Covered
0-44	1
45-49	14
50-54	33
55-59	69
60-64	125
65-69	113
70-74	79
75-79	70
80-84	42
85-89	30
90-94	6
95 +	1
Totals	583

The summaries shown above do not include the 159 retirees who retired during 2012 due to the Early Retirement Incentive (ERI).

Terminated members are not eligible for deferred Plan benefits.

SECTION E

ACTUARIAL COST METHOD AND ACTUARIAL ASSUMPTIONS

ACTUARIAL METHODS FOR CITY OF KALAMAZOO AS OF JANUARY 1, 2012

Actuarial Cost Method. Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an **Individual Entry-Age Actuarial Cost Method** having the following characteristics:

(i) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement;

(ii) each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Actuarial gains (losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

Financing of Unfunded Actuarial Accrued Liabilities. Unfunded actuarial accrued liabilities (UAAL) (full funding credit if assets exceed liabilities) were amortized as a level dollar over a 30-year period.

Actuarial Value Assets. There were no assets associated with this valuation.

Amortization of Unfunded Actuarial Accrued Liability. The following amortization factors were used in developing the Annual Required Contribution for the fiscal years shown:

	Fiscal Year Beginning January 01,	
4.00% Interest	**2012**	**2013**
City of Kalamazoo (Level Dollar)	17.6356	17.3212

ACTUARIAL METHODS FOR CITY OF KALAMAZOO AS OF JANUARY 1, 2012

The rate of investment return was 4.00% a year, compounded annually net after investment expenses.

The rates of salary increase used for individual members are in accordance with the following tables. This assumption is used to project a member's current salary to the salaries upon which future contributions will be based.

The annual rate of pay increases consists of two parts:

(i) a long-term rate of pay inflation equal to 4.0%.

(ii) merit and longevity increases which vary according to age or length of service. These rates are illustrated below.

Years of Service	KMEA	AFSCME	All Exempt	Non-Sworn Public Safety	Transit Union	Public Safety
1	6.0%	8.0%	6.0%	8.0%	7.0%	12.0%
2	5.0	3.0	6.0	7.0	7.0	12.0
3	4.0	3.0	0.5	6.0	0.0	8.0
4	2.0	2.0	0.5	1.5	0.0	5.0
5	1.0	2.0	0.5	1.5	0.0	5.0
6	1.0	1.0	0.3	1.5	0.0	5.0
7	1.0	0.0	0.3	1.5	0.0	5.0
8	1.0	0.0	0.3	1.5	0.0	5.0
9	0.0	0.0	0.3	1.5	0.0	1.0
10	0.0	0.0	0.3	1.5	0.0	1.0
11	0.0	0.0	0.3	0.5	0.0	1.0
12	0.0	0.0	0.3	0.5	0.0	1.0
13	0.0	0.0	0.3	0.5	0.0	0.5
14	0.0	0.0	0.3	0.5	0.0	0.5
thereafter	0.0	0.0	0.3	0.5	0.0	0.5

ACTUARIAL ASSUMPTIONS FOR CITY OF KALAMAZOO AS OF JANUARY 1, 2012 (CONTINUED)

The mortality table used was the 1994 Group Annuity Mortality Table. Mortality rates are set forward 7 years for disabled members.

	Value at Retirement of $1 Monthly for Life*		Future Life Expectancy (years)	
Ages	**Men**	**Women**	**Men**	**Women**
50	$140.93	$147.30	30.69	34.89
55	132.64	140.64	26.15	30.17
60	122.40	132.01	21.83	25.59
65	110.53	121.65	17.84	21.28
70	97.62	109.73	14.29	17.30
75	83.48	95.52	11.12	13.60
80	68.62	79.89	8.37	10.31

*Values are before post-retirement increases are reflected.

These assumptions are used to measure the probabilities members dying before retirement and the probabilities of each benefit being made after retirement.

100% of active member deaths were assumed to be non-duty related.

The rates of retirement used to measure the probability of eligible members retiring during the next year were as follows:

Retirement Ages	KMEA	AFSCME	All Exempt	Non-Sworn Public Safety	Transit Union
55	2%	6%	10%	10%	10%
56	2	7	10	10	10
57	5	10	25	25	25
58	5	7	25	25	25
59	7	6	20	20	20
60	15	30	25	25	25
61	15	20	30	30	30
62	50	60	30	30	30
63	15	25	15	15	15
64	10	25	15	15	15
65	100	100	100	100	100

Years of Service	Public Safety
20	2%
21	4
22	4
23	2
24	2
25	70
26	30
27	45
28	25
29	25
30	100

Retirement probabilities were applied for General and Transit members after both attaining age 55 and completing 15 years of service, or age 62 with 10 years of service (5 years for Exempt hired before 9/1/2010, 9 years for AFSCME and 8 years for KMEA hired before 1/1/2009). AFSCME members are also considered eligible for retirement at age 60 with 20 or more years of service. Retirement probabilities were applied for Public Safety members upon completion of 20 years of service with 100% retirement probability assumed at age 60 with 10 years of service.

ACTUARIAL ASSUMPTIONS FOR
CITY OF KALAMAZOO
AS OF JANUARY 1, 2012 (CONTINUED)

Rates of separation from active membership were as shown below (rates do not apply to members eligible to retire and do not include separation on account of death or disability). This assumption measures the probabilities of members remaining in employment.

		% of Active Members Separating within Next Year					
Sample Ages	**Years of Service**	**KMEA**	**AFSCME**	**All Exempt**	**Non-Sworn Public Safety**	**Transit Union**	**Public Safety**
	0	15.0%	15.0%	15.0%	6.0%	15.0%	6.0%
	1	14.0	14.0	14.0	4.0	14.0	4.0
	2	9.0	9.0	9.0	3.0	9.0	3.0
	3	8.0	8.0	8.0	2.5	8.0	2.5
	4	7.0	7.0	7.0	2.5	7.0	2.5
25	5 or Over	7.4	7.4	7.4	2.2	7.4	2.2
30		5.8	5.8	5.8	2.0	5.8	2.0
35		5.0	5.0	5.0	1.4	5.0	1.4
40		4.0	4.0	4.0	1.1	4.0	1.1
45		3.3	3.3	3.3	0.8	3.3	0.8
50		2.5	2.5	2.5	0.6	2.5	0.6
55		2.0	2.0	2.0	0.4	2.0	0.4
60		2.0	2.0	2.0	0.4	2.0	0.4

Disability Rates

Disability rates are used in the valuation to estimate the incidence of member disability in future years.

The assumed rates of disablement at various ages are shown below.

	% of Active Members Becoming Disabled Within Next Year	
Sample Ages	Public Safety Metro Transit AFSCME	KMEA Exempt CSO
20	0.19%	0.04%
25	0.23	0.04
30	0.26	0.04
35	0.33	0.04
40	0.46	0.10
45	0.63	0.13
50	1.21	0.25
55	2.36	0.45
60	0.00	0.71

75% of the disabilities are assumed to be non-duty related.

ACTUARIAL ASSUMPTIONS FOR CITY OF KALAMAZOO AS OF JANUARY 1, 2012 (CONCLUDED)

Health care cost trend rates are displayed in the following table:

Year After Valuation	Health Care Trend Inflation Rates Medical and Drug
1	9.00%
2	8.25
3	7.50
4	7.00
5	6.50
6	6.00
7	5.50
8	5.00
9	4.50
10 +	4.00

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS FOR CITY OF KALAMAZOO AS OF JANUARY 1, 2012

Administrative Expenses No explicit assumption has been made for administrative expenses.

Decrement Operation Death-in-service decrement does not operate until member becomes vested. Withdrawal does not operate during retirement eligibility.

Decrement Timing Decrements are assumed to occur at the middle of the fiscal year.

Decrement Relativity Decrement Rates are used directly from the experience study of the pension retirement system, without adjustment for multiple decrement effects.

Eligibility Testing Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.

Incidence of Contributions Contributions are assumed to be received continuously throughout the year based upon the computed dollar amount shown in this report.

Marriage Assumption 100% of males and 100% of females are assumed to be married at time of in-service death. Male spouses are assumed to be three years older than female spouses for active and ERI retiree valuation purposes.

Excise Tax Liability Rates have been loaded 1.25% to reflect expected future excise tax liability due to projected "Cadillac Plan" status.

Medicare Coverage Assumed to be available for all covered employees on attainment of age 65. Disabled retirees were assumed to be eligible for Medicare coverage at age 65.

Health Care Coverage at Retirement The table below shows the assumed portion of future retirees electing one-person or two-person/family coverage, or opting out of coverage entirely. It was also assumed active employees currently opting out of health care would elect health care based on the following table. For current retirees who are opting out of health care it was assumed they would continue to opt out of health care indefinitely. If current retirees choose to opt back in for coverage, if allowed, there would be a loss in future valuations.

		Two-Person/Family		
	One-Person	Electing	Continuing	Opt-Out
All Groups	25%	70%	0%	5%

APPENDIX A
OVERVIEW

GASB BACKGROUND

The purpose of this valuation is to provide information on the cost associated with providing postemployment benefits other than pensions, or OPEB, to current and former employees. The information is designed to assist you in complying with Governmental Accounting Standards Board (GASB) Statements No. 43 and No. 45. OPEB benefits are most often associated with postemployment health care, but cover almost any benefit not provided through a pension plan, including life insurance, dental and vision benefits. It is important to note that OPEB benefits, by definition, do not include benefits *currently* being provided to active employees – however, this report includes the liabilities for benefits expected to be paid to current active employees in the future when they retire.

GASB Statements No. 43 and No. 45 were released in the spring of 2004. GASB Statement No. 43 covers the accounting rules for OPEB *plans* while GASB Statement No. 45 describes the rules for *employers* sponsoring OPEB plans. Your auditor can assist you in determining which statements apply to your particular situation.

The specific items required to be disclosed on an OPEB sponsor's financial statements are described in detail in GASB Statements No. 43 and No. 45.

GASB Statement No. 45

Among the requirements of Statement No. 45 are recognition each year of an expense called the Annual OPEB Cost, and the accumulation of a liability to be disclosed on the employer's Statement of Net Assets called the Net OPEB Obligation (NOO).

The fundamental items required to determine the Annual OPEB Cost and the NOO are:

- the Annual Required Contribution (ARC)
- the Employer's Contributions in relation to the ARC

Although GASB does not require OPEB contributions, it has chosen to call the base component of the annual OPEB cost the Annual Required Contribution. The ARC is provided in this report.

Paragraph 13g. of Statement No. 45 states:

> "An employer has made a contribution in relation to the ARC if the employer has:
>
> 1. made payments of benefits directly to or on behalf of a retiree or beneficiary,
> 2. made premium payments to an insurer, or
> 3. irrevocably transferred assets to a trust, or equivalent arrangement in which Plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the Plan and are legally protected from creditors of the employer(s) or plan administrator."

For each fiscal year shown in this report, we have provided the ARC and the estimated benefits and/or premiums (based on valuation assumptions).

The NOO is the cumulative difference between the Annual OPEB Cost each year and the Employer's Contribution in relation to the ARC. The Annual OPEB Cost for a year is equal to:

- the ARC, plus
- interest on the prior year's NOO, plus
- amortization of the prior year's NOO.

The Annual OPEB Cost and NOO are generally developed by the Plan Sponsor's auditor based on information contained herein and elsewhere.

GASB Statement No. 43

If the Plan has assets for Statement No. 43 purposes, then certain additional information useful in complying with the Statement is contained in this report.

OPEB Pre-Funding

Many employers fund retiree health care benefits using the pay-as-you-go (or cash disbursement) method. Under this method, the employer's annual contribution is equal to the actual disbursements during the year for OPEB for retired employees. This method of funding will result in increasing contributions over time. First, per capita cash disbursements will tend to increase from year to year as the cost of health care services, or the utilization of these services, increases. Second, the number of retired members is likely to increase for years to come. The more retirees, the greater the disbursements as a percentage of employee payroll.

A retiree health care plan is similar to a defined benefit pension plan in that promises are made to employees to provide them with a benefit payable at some future date. For defined benefit pension plan sponsors, a common funding objective is to contribute to a fund, annual amounts which will i) remain level as a percentage of active member payroll, and ii) when combined with present assets and future investment return be sufficient to meet the financial obligations of the Plan to current and future retirees.

The GASB statements are not funding requirements. They are accounting standards that require Plan sponsors to calculate the annual expense associated with OPEB using certain methods.

The ultimate determination as to the level of pre-funding will be the result of decisions made in an attempt to support benefit security for members and the fiscal management needs of the employer.

APPENDIX B

GLOSSARY

Accrued Service. The service credited under the plan which was rendered before the date of the actuarial valuation.

Actuarial Accrued Liability. The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as "accrued liability" or "past service liability".

Actuarial Assumptions. Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

Actuarial Cost Method. A mathematical budgeting procedure for allocating the dollar amount of the "actuarial present value of future plan benefits" between the actuarial present value of future normal cost and the actuarial accrued liability. Sometimes referred to as the "actuarial funding method".

Actuarial Equivalent. A single amount or series of amounts of equal value to another single amount or series of amounts, computed on the basis of the rate(s) of interest and mortality tables used by the plan.

Actuarial Present Value. The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Amortization. Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.

GLOSSARY

Annual Required Contribution (ARC). The ARC is the normal cost plus the portion of the unfunded actuarial accrued liability to be amortized in the current period. The ARC is an amount that is actuarially determined in accordance with the requirements so that, if paid on an ongoing basis, it would be expected to provide sufficient resources to fund both the normal cost for each year and the amortized unfunded actuarial accrued liability.

Governmental Accounting Standards Board (GASB). GASB is the private, nonpartisan, nonprofit organization that works to create and improve the rules U.S. state and local governments follow when accounting for their finances and reporting them to the public.

Implicit Rate Subsidy. It is common practice for employers to allow retirees to continue in the employer's group health insurance plan (which also covers active employees), often charging the retiree some portion of the premium charged for active employees. Under the theory that retirees have higher utilization of services, the difference between the true cost of providing retiree coverage and what the retiree is being charged is known as the implicit rate subsidy.

Medical Trend Rate (Health Care Inflation). The increase in the cost of providing health care benefits over time. Trend includes such elements as pure price inflation, changes in utilization, advances in medical technology, and cost shifting.

Normal Cost. The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as "current service cost." Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.

Other Postemployment Benefits (OPEB). OPEB are postemployment benefits other than pensions. OPEB generally takes the form of health insurance, dental, vision, prescription drugs, life insurance or other health care benefits.

Reserve Account. An account used to indicate that funds have been set aside for a specific purpose and are not generally available for other uses.

GLOSSARY

Unfunded Actuarial Accrued Liability. The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as "unfunded actuarial accrued liability”.

Valuation Assets. The value of current plan assets recognized for valuation purposes.

May 10, 2013

Mr. Tom Skrobola
Chief Financial Officer
City of Kalamazoo
Postretirement Welfare Benefits Plan
241 W. South Street
Kalamazoo, Michigan 49007

Re: City of Kalamazoo Postretirement Welfare Benefits Plan

Dear Mr. Skrobola:

Enclosed are 10 copies of our report of the actuarial valuation of the City of Kalamazoo Postretirement Welfare Benefits Plan.

Respectfully submitted,

Curtis Powell, EA, MAAA

CP:ah
Enclosures