

January 26, 2011

Mr. Kirk Bednar
The City of Brentwood
Assistant City Manager
5211 Maryland Way
Brentwood, TN 37027

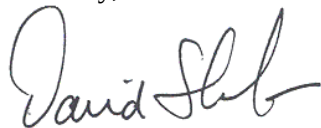
Dear Kirk:

The attached report summarizes the results of an actuarial valuation as of January 1, 2011 for the City of Brentwood. We trust this report will be helpful in the formulation of policy with respect to the operation and financing of the plan.

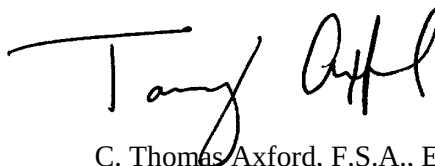
The opportunity to serve the City of Brentwood is appreciated, and we will be pleased to supplement this report in any way, as you request.

The actuarial valuation summarized in this report has been performed utilizing generally accepted actuarial principles and is based on actuarial assumptions, each of which is considered to be reasonable taking into account the experience of the plan and which, in combination, represent a best estimate of the anticipated experience of the plan.

Sincerely,



David L. Shaub, F.S.A.
Principal



C. Thomas Axford, F.S.A., E.A.
Consulting Actuary

cc: Carson Swinford
Michael Worsham

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**CITY OF BRENTWOOD
POST EMPLOYMENT BENEFITS
OTHER THAN PENSIONS**

**GASB 45 VALUATION AND REPORT AS OF
JANUARY 1, 2011**

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SUMMARY OF REPORT

An actuarial valuation of the postemployment medical and life insurance benefits provided by the City of Brentwood has been performed as of January 1, 2011. The purpose of the valuation is to determine the Annual Required Contributions of the City of Brentwood under selected actuarial cost methods and amortization methods as prescribed by Statement No. 45 of the Governmental Accounting Standards Board. The words "Annual Required Contribution" are used in this Report because the term "Annual Required Contribution" has a technical meaning under GASB 45. Whenever the term is used herein, it identifies that accounting and actuarial concept only; its use does not mean and is not intended to mean that the City of Brentwood has any actual legal obligation, on an annual or aggregate basis, to fund postemployment benefits.

On the basis of the valuation, it has been determined that the Annual Required Contributions for the fiscal years ending June 30, 2012 and June 30, 2013 for the plan, as described in the report, are as follows:

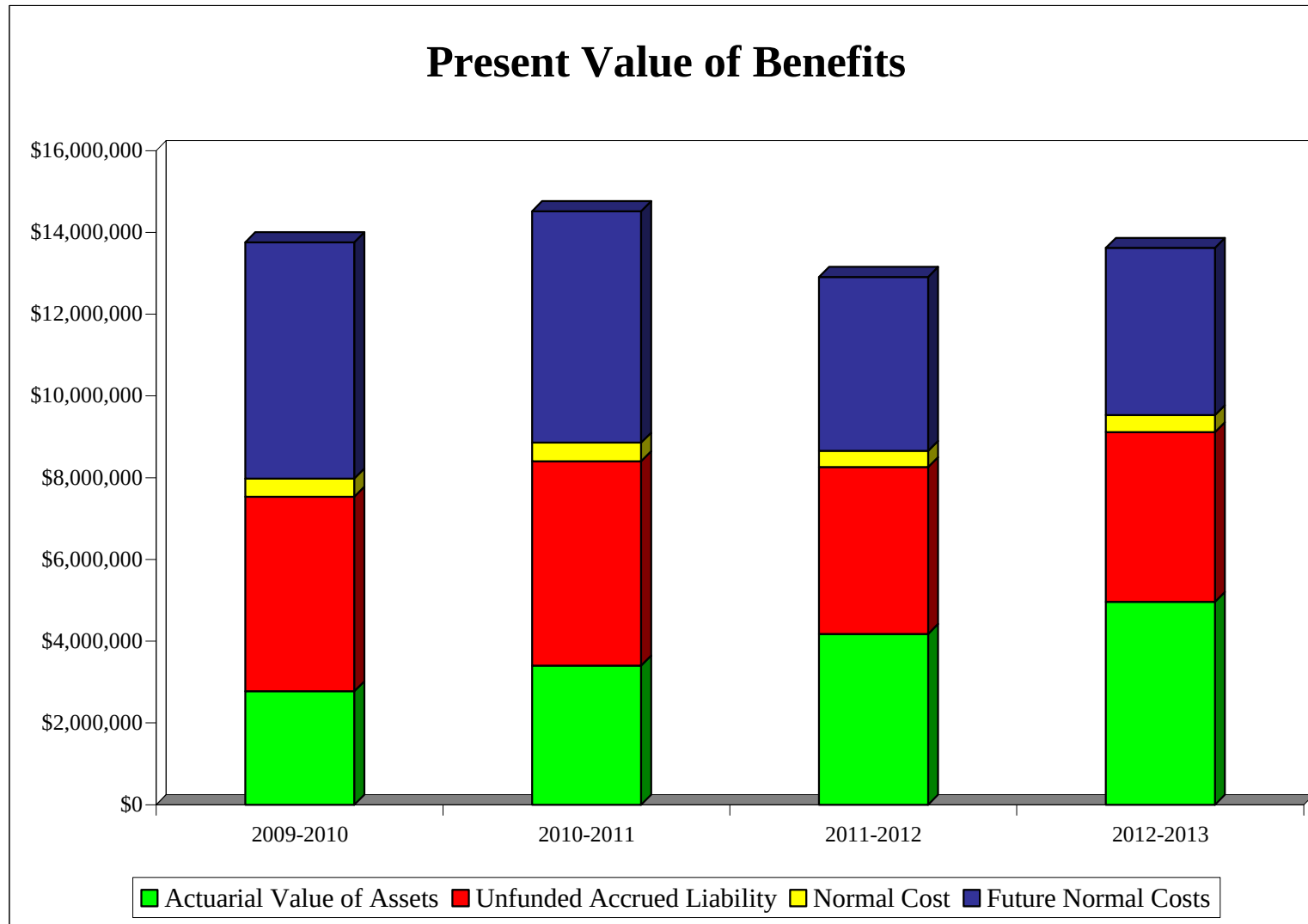
Annual Required Contribution

Entry Age Normal, 30-Year Level Percentage Amortization

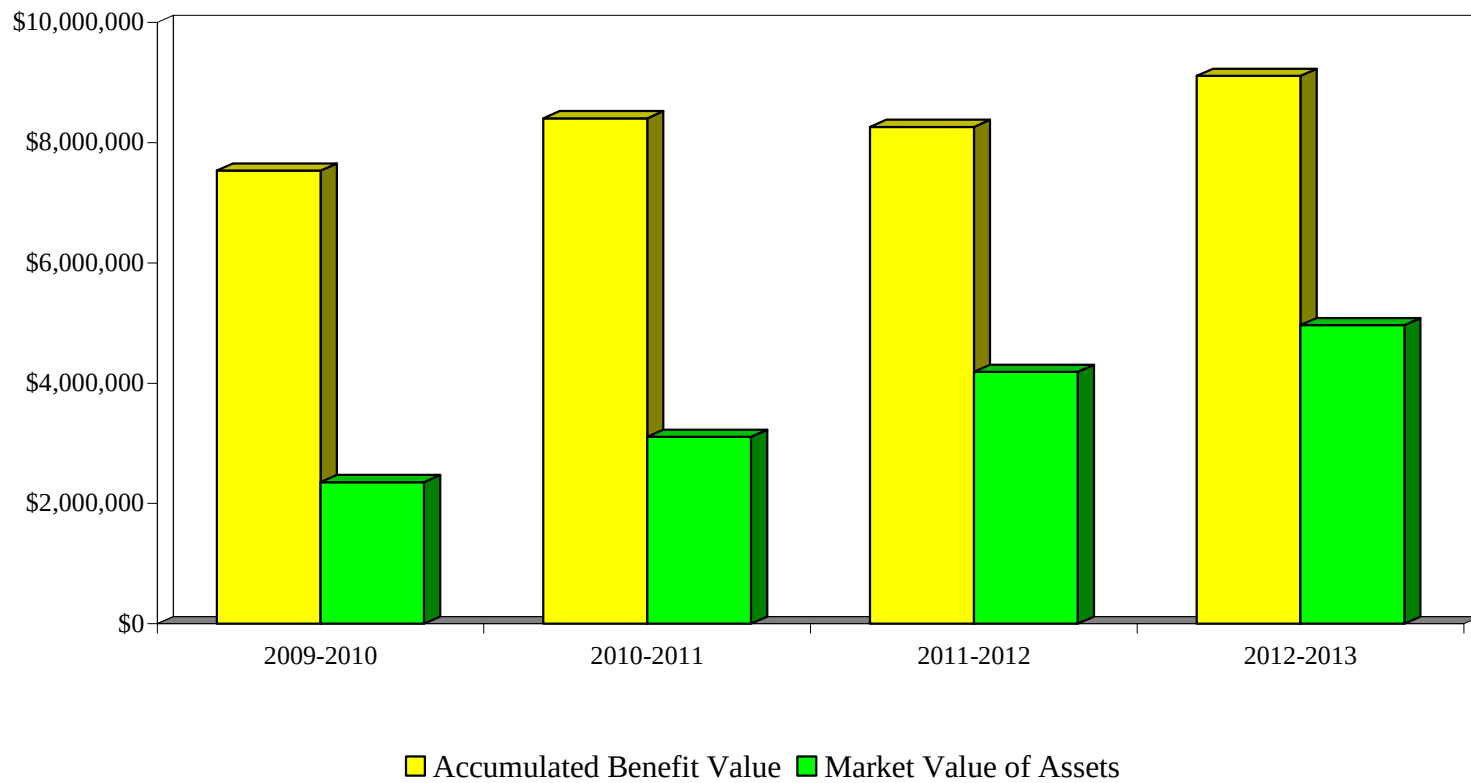
	Fiscal Year 2011/2012	Percentage of Total Projected Payroll
Annual Required Contribution	\$ 621,571	4.98 %
Projected Payouts	\$ 73,146	0.59 %
Net Cost	\$ 548,425	4.40 %
	Fiscal Year 2012/2013	Percentage of Total Projected Payroll
Annual Required Contribution	\$ 652,143	5.03 %
Projected Payouts	\$ 97,987	0.76 %
Net Cost	\$ 554,156	4.27 %

Yearly Comparison of Selected Plan Information

	2009 - 2010	2010 - 2011	2011 - 2012	2012 - 2013
Number of Participants				
Actives	238	238	235	235
Retirees	9	9	10	10
Annual Projected Payroll	\$ 12,792,110	\$ 13,095,851	\$ 12,472,750	\$ 12,971,660
Average Projected Earnings	\$ 53,748	\$ 55,025	\$ 53,076	\$ 55,199
Present Value of Benefits	\$ 13,314,369	\$ 14,068,385	\$ 12,509,831	\$ 13,201,541
Unfunded Accrued Liability	\$ 4,758,705	\$ 4,998,745	\$ 4,081,611	\$ 4,149,424
Market Value of Assets (BOY)	\$ 2,354,471	\$ 3,107,768	\$ 4,186,616	\$ 4,968,577
Actuarial Value of Assets (BOY)	\$ 2,776,979	\$ 3,406,762	\$ 4,179,023	\$ 4,963,204
Annual Funding Levels				
Normal Cost	\$ 443,897	\$ 451,200	\$ 397,183	\$ 417,042
% of Payroll	3.47 %	3.45 %	3.18 %	3.22 %
Annual Required Contribution	\$ 636,866	\$ 659,800	\$ 621,571	\$ 652,143
% of Payroll	4.98 %	5.04 %	4.98 %	5.03 %
Projected Payouts	\$ 61,063	\$ 71,025	\$ 73,146	\$ 97,987
% of Payroll	0.48 %	0.54 %	0.59 %	0.76 %
Net Cost	\$ 575,803	\$ 588,775	\$ 548,425	\$ 554,156
% of Payroll	4.50 %	4.50 %	4.40 %	4.27 %
Actual Trust Contributions	\$ 566,846	N/A	N/A	N/A
% of Payroll	4.43 %	N/A	N/A	N/A



Accumulated Benefit Comparison



Net OPEB Obligation

	2009 - 2010	2010 - 2011	2011 - 2012	2012 - 2013
Net OPEB Obligation – July 1	\$ (1,749,078)	\$ (1,749,078)	\$ (1,749,078)	\$ (1,749,078)
Annual Required Contribution	\$ 636,866	\$ 659,800	\$ 621,571	\$ 652,143
Interest on Net OPEB Obligation	(107,568)	(107,568)	(107,568)	(107,568)
Adjustment on Annual Required Contribution	61,309	61,309	68,207	91,000
Annual OPEB Cost	\$ 590,607	\$ 613,541	\$ 582,210	\$ 635,575
Annual Employer Trust Contribution	\$ (529,544)	\$ (542,516)	\$ (509,064)	\$ (537,588)
Employer Payments for Retiree Benefits	(61,063)	(71,025)	(73,146)	(97,987)
Total Contribution	\$ (590,607)	\$ (613,541)	\$ (582,210)	\$ (635,575)
Increase in Net OPEB Obligation	\$ 0	\$ 0	\$ 0	\$ 0
Net OPEB Obligation – June 30	\$ (1,749,078)	\$ (1,749,078)	\$ (1,749,078)	\$ (1,749,078)

BASIS OF VALUATION

Summary of Benefits

	Employees Hired Before July 1, 2005	Employees Hired On or After July 1, 2005						
Eligibility	20 years or service & minimum age 55 at retirement	Same						
Pre-65 Plan Coverage	Covered under same group plan as active employees	Same						
Pre-65 Cost (Retiree Only)	City pays 100%	Percent City pays depends upon years of service as shown below: <table><tr><th>Yrs.</th><th>% City Pays</th></tr><tr><td>20-25</td><td>75%</td></tr><tr><td>25+</td><td>90%</td></tr></table>	Yrs.	% City Pays	20-25	75%	25+	90%
Yrs.	% City Pays							
20-25	75%							
25+	90%							
Pre-65 Cost (Dependents)	Retiree pays 50% - City pays 50%	Retiree pays 100%						
Post-65 Plan Coverage	Direct reimbursement to retiree towards cost of private Medicare supplement policy	None						
Retiree Life Insurance	City pays 100% for \$50K policy value reduces at age 70 & 75	City pays 100% for \$50K policy to age 65						

BASIS OF VALUATION**Summary of Actuarial Assumptions and Methods****Current Assumptions
(Sample Values per 1,000 Lives)**

	ATTAINED AGE			
	20	35	50	60
<u>Mortality Rates</u>				
RP 2000 Table – Male	.35	.77	2.14	4.88
RP 2000 Table – Female	.19	.48	1.68	3.93
<u>Withdrawal Rates</u>				
Estimated Experience	160	47	7	0
<u>Disability Rates*</u>				
General Government – Male	.41	1.26	5.27	14.39
General Government – Female	.35	1.60	5.42	11.39
Fire/Police – Male	1.12	3.23	8.60	14.53
Fire/Police – Female	.66	2.90	8.43	13.46

* Once an employee has met the retirement eligibility requirements, the disability decrement is no longer applied to that individual.

Post-Disability Mortality Rates

75% of Pension Benefit Guaranty Corporation – Male	36.20	20.90	28.70	45.20
Pension Benefit Guaranty Corporation – Female	26.30	21.40	25.70	33.10

Retirement Rates

<u>General Government</u>		<u>Fire/Police</u>	
<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
55-59	10%	55-59	50%
60-64	25%	60	100%
65	100%		
<u>Fire/Police Chief</u>		<u>Fire/Police Supervisor</u>	
<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
65	100%	62	100%

Date of Valuation

January 1, 2011

Discount Rate

6.15% per annum

Long-Term Rate of Return

6.15% based on the following investment allocation:

Savings Oriented Portfolio	30%
Conservation Growth Portfolio	40%
Traditional Growth Portfolio	30%

<u>Portfolio Name</u>	<u>Investment Mix</u>
Savings Oriented	75% bonds, 25% stocks
Conservative Growth	60% bonds, 40% stocks
Traditional Growth	40% bonds, 60% stocks

The combined distribution is 58.5% bonds and 41.5% stocks.

Salary Scale

Salaries increase at 4% per year.

Actuarial Valuation Method

Entry Age Normal Method. A method under which the Actuarial Present Value of the Projected Benefits of each individual included in an Actuarial Valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s).

Asset Valuation Method

The actuarial value of plan assets is developed by adjusting expected assets on the valuation date toward market value assets by an amount equal to one-third of the difference between expected and market asset values. Expected assets are developed by crediting investment earnings at the assumed valuation investment return rate to the prior year valuation asset value and by deducting expenses and benefit payments and crediting contributions adjusted for investment earnings thereon.

Health Care Cost Trend Rate

8% graded uniformly to 5% over 6 years

Full Eligibility Date

Employees are fully eligible for postretirement medical and life insurance once they reach age 55 with 20 years of service. For General Government valuation purposes, eligibility is set at reaching the earlier of age 55 with 30 years of service, or age 60 with 20 years of service, which is the first date an employee is eligible for postretirement medical and life insurance benefits as well as an unreduced TCRS retirement benefit. Fire and Police employees are eligible at age 55 with 20 years of service. Officials who retire at age 55 with 10 years of service are eligible for medical coverage, but the retiree pays 100% of the cost.

Disability Eligibility

It is assumed that employees are eligible for medical benefits upon disability, as defined and approved by TCRS, if they have at least 5 years of service. Health insurance coverage terminates at age 65.

Medical Benefits - Coordination with Medicare

Benefits for retirees are deemed to be similar to those benefits provided for actives. The retiree medical plan is assumed to be the primary plan of benefits prior to age 65. Once the retiree reaches age 65, the City of Brentwood reimburses a portion of a Medicare Supplemental Plan purchased by the retiree, discussed in the cost sharing section below. Medicare benefits are assumed to be those statutory benefits effective as of the valuation date for all future periods.

Legislative Changes

The valuation results provided in this report reflect a best estimate of the potential impact of the Patient Protection and Affordable Care Act (PPACA). Consideration has been made for provisions of the law that are effective as of the valuation date as well as those provisions that will take effect in the future.

Retiree Cost Sharing Provisions for Medical Coverage

No retiree contributions are required for pre-65 retiree coverage for participants hired prior to July 1, 2005. Participants hired on or after July 1, 2005 will pay 25% of the premium if they have less than 25 years of service, and 10% of the premium if they have 25 years of service or more. For those employees who retired prior to July 1, 2002, the City reimburses the retiree for 100% of the cost of the post-65 Medicare Supplemental Plan which the retiree chooses to purchase independently. Employees hired before July 1, 2005 that retire after July 1, 2002 also receive a reimbursement from the City for a post-65 Medicare Supplemental Plan. However, there is an annual cap of 50% of the lowest priced employee-only group health insurance coverage. The current reimbursement maximum is \$2,362. This cap was not reduced to account for the switch to a high-deductible health plan in 2010. Employees hired on or after July 1, 2005 do not receive a reimbursement from the City for a post-65 Medicare Supplemental Plan.

Annual Per Capita Medical Claim Costs – Age 65

For employees retiring after July 1, 2002, the post-65 claims are equal to the cap, which increases with trend. For those who retired prior to July 1, 2002, the post-65 claims are actual amounts provided by the City of Brentwood.

Pre-65	\$	6,350
Post-65 Cap	\$	2,362

Annual claims costs are assumed to decrease 3% per year until age 45. Administration expenses are included. In addition to the claims listed above, the city also provides an annual HRA account balance to each retiree. Single employees are allocated \$5,500 per year and families are allocated \$11,000. The HRA account balances do not accumulate and any outstanding account balance reverts to the employer if unused at the end of any given plan year. Based on actual plan experience, it is assumed that the City of Brentwood will spend \$866 per annum from the Health Reimbursement Account of each eligible pre-65 retiree.

Election of Future Postretirement Coverage

Participants hired before July 1, 2005 - Assume 100% of eligible retirees elect coverage and 75% of spouses elect coverage.

Participants hired on or after July 1, 2005 - Assume 90% of eligible retirees elect coverage and 50% of spouses elect coverage.

Investment of Plan Funds

The Plan assets are held in custody and invested in accordance with the investment policy authorized by the City of Brentwood OPEB Investment Committee.

Dependents

Participants hired before July 1, 2005 - The City of Brentwood contributes 50% of the cost of premiums for the spouses of retirees until the earlier of the spouse reaching age 65, or the retiree reaching age 65, at which time spouses no longer receive medical coverage.

Participants hired on or after July 1, 2005 - The City of Brentwood does not contribute toward the cost of premiums for the spouses of retirees. However, coverage is offered until the earlier of the spouse reaching age 65, or the retiree reaching age 65, at which time spouses no longer receive medical coverage.

Death of Retiree

Upon the death of a retiree, the surviving spouse is no longer eligible for coverage.

Life Insurance Benefit

Participants hired before July 1, 2005 - Retirees are eligible for a \$50,000 life insurance policy, which reduces to \$32,500 at age 70, and reduces to \$22,500 at age 75.

Participants hired on or after July 1, 2005 - Retirees are eligible for a \$50,000 life insurance policy to age 65.

It is assumed that administration expenses for life insurance benefits will be \$675 in the first year of the valuation, increasing 3.0% annually.

Amortization Period

30 years (closed)

PLAN ASSETS

Summary of Operations

	2009 - 2010	2010-2011*
Trust Fund, July 1	\$ 2,430,997	\$3,238,825
Increases		
Employer Contributions	\$ 566,846	\$542,516
Net Investment Gains	240,982	405,275
Total increases	\$ 807,828	\$947,791
Decreases		
Benefit payments*	\$ 0	\$0
Other Expenses	0	0
Total decreases	\$ 0	\$0
Trust Fund, June 30	\$ 3,238,825	\$4,186,616

* Actual asset of \$3,724,636 were provided as of November 17, 2010 and projected forward to June 30, 2011 based on the assumptions provided in this actuarial valuation report.

PLAN ASSETS**Development of Valuation Assets**

The development of valuation assets for the plan as of July 1, 2011 and July 1, 2012 is presented below:

	FYE 2011	FYE 2012
(1) Valuation assets, beginning of period	\$ 3,406,762	\$4,179,023
(2) Expected interest on prior year assets	209,516	257,010
(3) Contribution for the fiscal year	542,516	509,064
(4) Expected interest on contributions	16,433	15,420
(5) Benefit payments	0	0
(6) Expected interest on benefit payments	0	0
(7) Expected assets, end of period	\$ 4,175,227	\$4,960,517
(8) Market value of assets, end of period	\$4,186,616	\$4,968,577
(9) Adjustment to expected assets, ((8) – (7)) / 3	3,796	2,687
(10) Value of assets, End of Period, (7) + (9), but within 20% of market value	\$ 4,179,023	\$4,963,204
Market value assets, end of period	\$ 4,186,616	\$4,968,577
Receivable contribution	0	0
Total	\$ 4,186,616	\$4,968,577

*No benefit payments were made from the Trust Fund.

ACTUARIAL COMPUTATIONS**Actuarial Balance Sheet as of July 1**

	<u>July 1, 2011</u>	<u>July 1, 2012</u>
Assets		
Actuarial Asset Value	\$ 4,179,023	\$ 4,963,204
Unfunded Accrued Liability	4,081,611	4,149,424
Present Value of Future Normal Costs	4,249,197	4,088,913
Total	\$ 12,509,831	\$ 13,201,541
Liabilities		
Present Value of Benefits		
Active Participants	\$ 12,018,427	\$ 12,732,908
Inactive Participants	491,404	468,633
Total	\$ 12,509,831	\$ 13,201,541

Determination of Annual Required Contribution

The funding requirements for the plan are equal to the normal cost plus the amortization bases of annual outstanding balances. An interest adjustment has been added to reflect payment at the midpoint of the fiscal year.

	<u>2011 - 2012</u>	<u>2012 - 2013</u>
Normal Cost	\$ 397,183	\$ 417,042
Sum of Amortized Bases	206,113	215,928
Interest	18,275	19,173
Annual Required Contribution	\$ 621,571	\$ 652,143

Sensitivity Testing of Actuarial Assumptions

The results of this valuation must be viewed as estimates of the actual results that will occur in the future. It is important to realize that actual results will likely be either higher or lower than these estimates. In addition, certain assumptions are more critical to the valuation results. The impact caused by change or volatility in these key assumptions can be illustrated by providing valuation results after varying these assumptions. In particular, sensitivity results are shown below for the revision of two key assumptions: (a) increasing the health care cost trend assumption from “8% grading to 5% over 6 years” to “9% grading to 6% over 6 years” and (b) increasing the discount rate from 6.15% to 7.15%.

2011 – 2012 Plan Year Comparison

	<u>Base Results</u>	<u>Revisions (a)</u>	<u>Revisions (b)</u>
Normal Cost	\$ 397,183	\$ 489,057	\$ 317,458
Sum of Amortized Bases	206,113	278,816	172,020
Interest	18,275	23,260	17,197
Annual Required Contribution	<u>\$ 621,571</u>	<u>\$ 791,133</u>	<u>\$ 506,675</u>
ARC as a percentage of projected pay	4.98 %	6.34 %	4.06 %

FINANCIAL DISCLOSURE
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/2007	\$ 0	\$ 5,543,793	\$ 5,543,793	0.0 %	\$ 11,302,574	49.1%
07/01/2008	\$ 2,300,104	\$ 7,137,913	\$ 4,837,809	32.2 %	\$ 11,876,269	40.7 %
07/01/2009	\$ 2,776,979	\$ 7,535,684	\$ 4,758,705	33.8 %	\$ 12,792,110	37.2 %
07/01/2010	\$ 3,406,762	\$ 8,405,507	\$ 4,998,745	39.0 %	\$ 13,095,851	38.2 %
07/01/2011	\$ 4,179,023	\$ 8,260,634	\$ 4,081,611	50.6 %	\$ 12,472,750	32.7 %
07/01/2012	\$ 4,963,204	\$ 9,112,628	\$ 4,149,424	54.5 %	\$ 12,971,660	32.0 %

Schedule of Employer Contributions

Plan Year	Annual OPEB Cost	Total Contribution	Percentage Contributed
2007-2008	\$ 598,000	\$ 2,286,006	382.3 %
2008-2009	\$ 493,846	\$ 554,918	112.4 %
2009-2010	\$ 590,607	\$ 590,607	100.0 %
2010-2011	\$ 613,541	TBD	TBD
2011-2012	\$ 582,210	TBD	TBD
2012-2013	\$ 632,582	TBD	TBD