Gabriel Roeder Smith & Company
Consultants & Actuaries

CITY OF TYLER RETIREE HEALTH CARE PLAN

ACTUARIAL VALUATION REPORT

AS OF DECEMBER 31, 2009

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GRS

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August 26, 2010

Daniel Crawford
Director of Finance/CFO
City of Tyler
304 N Border
Tyler, TX 75702

Dear Mr. Crawford:

Submitted in this report are the results of an Actuarial Valuation of the assets and benefit values associated with the employer financed retiree health benefits provided by City of Tyler. The date of the valuation was December 31, 2009. The annual required contribution has been calculated for the fiscal year beginning October 1, 2010.

The actuarial calculations were prepared for purposes of complying with the requirements of Statements No. 43 and No. 45 of the Governmental Accounting Standards Board (GASB). The calculations reported herein have been made on a basis consistent with our understanding of these accounting standards. Determinations of the liability associated with the benefits described in this report for purposes other than satisfying City of Tyler's financial reporting requirements may produce significantly different results. This report may be provided to parties other than City of Tyler only in its entirety and only with the permission of City of Tyler.

The valuation was based upon information, furnished by City of Tyler, concerning retiree health benefits and individual employees, and financial data. Data was checked for internal consistency but was not otherwise audited.

To the best of our knowledge, this report is complete and accurate and was made in accordance with generally recognized actuarial methods. One or more of the undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the Academy of Actuaries to render the actuarial opinion herein.

Respectfully submitted,

Jack L. Beam

Jack L. Beam, ASA, EA, MAAA

Joseph Newton

Joseph Newton, FSA, MAAA

EXECUTIVE SUMMARY

Annual Required Contribution

This report presents the annual expense required to be recognized by the plan sponsor for purposes of complying with the accounting requirements of Government Accounting Standards Board Statement No. 45. In addition, the plan may also need to comply with GASB Statement No. 43. Please consult with legal counsel and the auditors to determine whether you have a plan for GASB Statement No. 43 purposes.

The Annual Required Contribution (ARC) for the fiscal year beginning October 1, 2010 has been calculated under the two different interest rate assumptions. Below is a summary of the Annual Required Contribution. In the first year GASB Statement No. 45 is adopted, the annual OPEB cost required to be disclosed on the employer's financial statements is equal to the ARC. Actual claims/premiums paid on behalf of retirees may be treated as employer contributions in relation to the ARC and act to reduce the Net OPEB Obligation (NOO).

Annual Required Contribution	Funding Policy
Fiscal Year Beginning 2010	$3,299,776

For additional details please see Section B of the report.

Additional OPEB Reporting Requirements

In addition to the annual OPEB cost described above, employers will have to disclose a Net OPEB Obligation (or asset). The Net OPEB Obligation is the cumulative difference between annual OPEB costs and annual employer contributions in relation to the ARC, accumulated from the implementation of Statement No. 45. The Net OPEB Obligation 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

Funding Policy Assumption

This scenario assumes the employer will set up an irrevocable trust and change the funding policy so that the annual employer contributions are equal to the ARC. Under this funding policy, GASB 45 allows the use of a discount rate consistent with the investment return earned on the plan's assets. Dependent on the asset allocation of the investment pool, this rate should be based on longer term investments. In this valuation, the discount rate is 7.50%.

The present value of all benefits expected to be paid to current plan members as of December 31, 2009 is $49,532,186. The actuarial accrued liability, which is the portion of the $49,532,186 attributable to service accrued by plan members as of December 31, 2009, is $44,364,159. As of December 31, 2009, there is $3,252,222 in valuation assets available to offset the liabilities of the plan.

The funded status of the plan, which is the ratio of plan assets to actuarial accrued liability, as of December 31, 2009 is 7.33%.

SECTION 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. 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 when they terminate employment at a future date.

The rising cost of health care has been a cause of concern to both individuals and employers who sponsor health care plans. The accounting community became concerned that many sponsors of public plans were accounting for the cost of their OPEB plans solely on the basis of benefits paid and that this method did not accurately reflect the ultimate cost of benefits promised to current and former employees. In 1988, the Governmental Accounting Standards Board (GASB) began working on a project to develop comprehensive standards for financial reporting of OPEB plans.

The GASB determined that an OPEB plan was similar to a pension plan in that benefits are earned during an active employee's working lifetime but paid out at a future date. In the GASB's view, accounting for OPEB should follow the same basic principle as accounting for public plan pension cost: these benefits are compensation for employees' services and should be accounted for during the period of time that services are performed.

GASB BACKGROUND (CONCLUDED)

The GASB worked on comprehensive standards for OPEB accounting for more than a decade, culminating with the release of GASB Statements No. 43 and No. 45 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. The effective dates of the Statements are based on the implementation of GASB Statement No. 34, based on the sponsor's annual revenue for the first fiscal year ending on or after June 15, 1999, and follow the schedule below:

Total Annual Revenue In the First Fiscal Year Ending After June 15, 1999	GASB No. 43 OPEB Standards for the Plan's Financial Statements will be Effective for Periods Beginning After	GASB No. 45 OPEB Standards for the Employer's Financial Statements will be Effective for Periods Beginning After
Phase 1 Govts. - $100 million or more	December 15, 2005	December 15, 2006
Phase 2 Govts. - $10 million or more, But less than $100 million	December 15, 2006	December 15, 2007
Phase 3 Govts. - Less than $10 million	December 15, 2007	December 15, 2008

GASB STANDARDS

Unlike pension plans, OPEB plans often do not have a formal document detailing the specific terms of the plan. Under GASB No. 43 and No. 45 the benefits to be accounted for are those provided by the *substantive plan* – loosely defined as the benefits covered by the plan as understood by the employer and plan members at the time of each actuarial valuation. The substantive plan provisions used in this valuation are summarized in Section D.

GASB also requires that the calculations assume the terms of the substantive plan continue indefinitely. It has been argued that there is a likelihood future OPEB plan provisions would be different than the current substantive plan (due to rising health care costs or social changes) and therefore liabilities based on the current substantive plan may overstate what will actually occur. However, the GASB Statement is designed to measure liabilities for the plan as it currently exists. While it may be reasonable to assume future changes in the OPEB plan for other purposes, recognition of anticipated changes is not allowed for purposes of accounting for OPEB.

The specific items required to be disclosed on an OPEB sponsor's financial statements are described in detail in GASB No. 43 and No. 45. In general terms, though, the plan sponsor is required to disclose an annual OPEB cost, the funded status of the plan and the funding progress on the valuation date. Although GASB does not require OPEB contributions, it has chosen to call the base component of the annual OPEB cost the Annual Required Contribution, or ARC. The ARC consists of the cost of benefits accruing in a year plus an amount calculated to amortize any unfunded actuarial accrued liability over a period of not more than 30 years.

The funded status of the plan is a ratio of the plan's assets (if any) to the actuarial accrued liability on the valuation date. The plan is also required to disclose the cumulative difference between the ARC and the employer's actual contribution to the plan. This amount is known as the Net OPEB Obligation (NOO). Each year, the NOO accumulates with interest, plus the difference between the ARC and actual contributions for the year, plus some technical adjustments. **For most plans the NOO is set to zero as of the effective date of the GASB OPEB standard. It is the NOO, and not the actuarial accrued liability, that will be disclosed on the employer's Statement of Net Assets.**

OPEB SPECIFIC ASSUMPTIONS

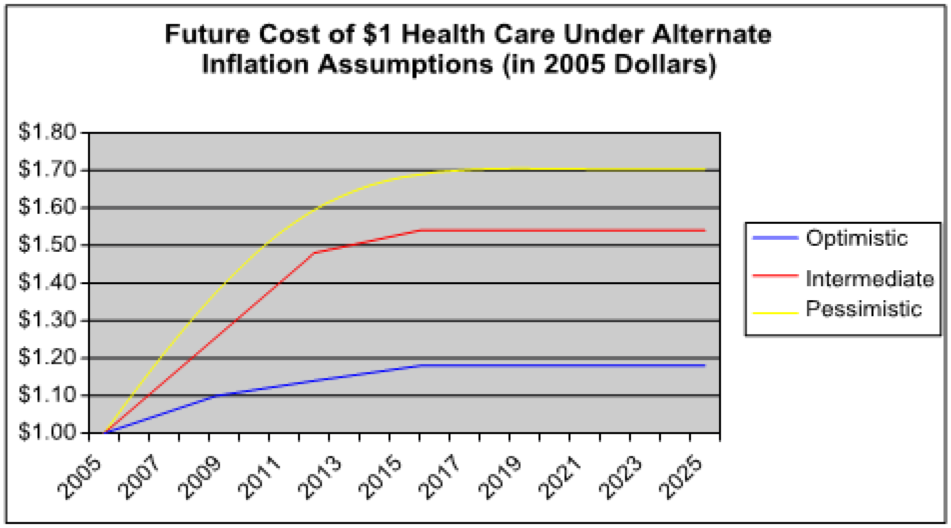
In any long-term actuarial valuation (such as for pensions and OPEB) certain demographic, economic and behavioral assumptions must be made concerning the population, investment discount rates, and the benefits provided. These actuarial assumptions form the basis for the actuarial model which is used to project the future population, benefits to be provided, and contributions to be collected. The investment return rate assumption is used to discount the future benefits to a present value on the valuation date. While assumptions such as future rates of retirement and mortality are similar for both OPEB and pension plans, there are some additional assumptions required when projecting benefits for a health care plan.

The cost of providing medical services has been increasing more rapidly than prices in general for many years. During the period from 1955 to 2005 general inflation averaged 4.0%, while health expenditures increased by an average of about 10% per year. If this trend is projected to continue for years to come, it implies that years from now virtually all our expenditures will be for health care. The seemingly more reasonable alternative is that in the not too distant future medical expense inflation will stabilize at a level at or near general inflation. It is on this basis that we project that retiree health care costs will continue to exceed general inflation in the near term, but by less each year until leveling off at an ultimate rate that is similar to general price increases.

Health care increase rates used in this valuation lie within a range of reasonable assumptions, and are described in Section G of this report. The health care increase rate assumption has a major effect on the calculation of plan liabilities. To illustrate the effect of differing future medical inflation rates, the following chart projects the growth of $1 of health care benefit under three sets of assumptions.

In this illustration, each set of assumptions trends smoothly to an assumed long term rate of inflation over the next ten years: The assumption set labeled “Pessimistic” begins at a rate of 8.50% in excess of general inflation, the “Intermediate” assumption begins at a rate of 6% in excess of general inflation, while the “Optimistic” assumption begins at a rate of 3% in excess of general inflation.

OPEB SPECIFIC ASSUMPTIONS (CONCLUDED)



The chart above shows that the cost of providing health care is expected to increase over 50% in inflation-adjusted dollars over the next 20 years, using the "Intermediate" health care increase assumption set. To put this in perspective, assuming health care increases are brought under control almost immediately, as in the "Optimistic" assumption set, implies future per capita health care costs will be expected to increase less than 20% over current levels. In addition to the per capita health care inflation, costs are expected to rise as the retiree population increases.

The selection of an investment return rate also has a major impact on the calculation of the reported GASB OPEB expense.

It is important to note that GASB Statements No. 43 and No. 45 require the selection of an interest rate assumption to be based on the expected long-term rate of return on the assets expected to pay the OPEB when due. GASB states that the return should be based on expected returns of:

- Plan assets – if the sponsor has been contributing the ARC on a regular basis;
- The employer's general assets – where no OPEB assets have been accumulated;
- A blend of plan and employer assets – in cases where OPEB assets exist but the plan is contributing amounts less than the ARC.

Actuarial Cost Method

GASB Statement No. 45 provides some flexibility to governmental employers (and their actuaries) in the use of various actuarial cost methods. It should be noted that an actuarial cost method determines a contribution or expense by assigning portions of the present value of projected benefits to various years with the general goal of accruing the cost of benefits over the working lifetime of the employees. The choice of a particular method does not change the ultimate cost of the promised benefits.

The Projected Unit Credit, Level Percent of Payroll actuarial cost method has been used to calculate the GASB ARC for this valuation. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability. If experience is in accordance with the assumptions used, the ARC will increase at approximately the same rate as active member payroll, and the ARC as a percentage of payroll will remain basically level on a year to year basis. This is both an acceptable and reasonable cost method. The use of another actuarial cost method would produce different results.

OPEB PREFUNDING

Many employers fund retiree health care benefits using the pay-as-you-go (or cash disbursement) method. The employer's annual contribution for these benefits is equal to the actual disbursements during the year for health care benefits 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 there are, 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 annual amounts to a fund which will i) remain level as a percentage of active member payroll, and ii) when combined with present assets and future investment return will be sufficient to meet the financial obligations of the Plan to current and future retirees.

The ultimate determination as to the level of pre-funding will be the result of decisions made in an attempt to reconcile the often conflicting needs of benefit security for members and fiscal responsibility for the Municipality. The GASB accounting standards noted in the previous section of the report can factor into decisions concerning the level of pre-funding.

SECTION B

VALUATION RESULTS

CITY OF TYLER
DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTION

Contributions for	Development of the Annual Required Contribution	
	Fiscal Year Beginning 2010 Funding Policy	Fiscal Year Beginning 2008 Funding Policy
Employer Normal Cost	$776,195	$748,378
Amortization of UAAL*	$2,523,581	$2,117,251
Annual Required Contribution (ARC)	$3,299,776	$2,865,629
ARC Per Active Participant	$4,151	$3,846

* Unfunded Actuarial Accrued Liabilities (UAAL) were amortized over 30 years.

The ARC shown in this report has been calculated to increase at the same rate as the projected increase in active member payroll (3.00% per year). The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll over a period of 30 years. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with the GASB requirements.

CITY OF TYLER
DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY AS OF DECEMBER 31, 2009

	Fiscal Year Beginning 2010	Fiscal Year Beginning 2008
	Funding Policy	Funding Policy
A. Present Value of Future Benefits		
i) Retirees and Beneficiaries	$29,772,341	$22,095,620
ii) Vested Terminated Members	$0	$0
iii) Active Members	$19,759,845	$18,905,698
Total Present Value of Future Benefits	$49,532,186	$41,001,318
B. Present Value of Future Normal Costs	$5,168,027	$5,735,807
C. Actuarial Accrued Liabilities (A.-B.)	$44,364,159	$35,265,511
D. Actuarial Value of Assets	$3,252,222	$0
E. Unfunded Actuarial Accrued Liability (C.-D.)	$41,111,937	$35,265,511
F. Funded Ratio (D./C.)	7.33%	0.00%

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 post-employment benefits is the rate of return on Plan assets. Higher assumed investment returns will result in a lower ARC. Lower returns will tend to increase the computed ARC. Under the Funding Policy, the assumed asset allocation is a mix of equities and bonds and therefore a 7.50% discount rate is assumed.

COMMENT B: Based on the number of plan members as of this valuation, the plan sponsor is required by GASB to perform annual actuarial valuations at least biennially. An annual actuarial valuation will re-compute the required contribution rate each year. This will permit fluctuations and trends in experience to be reflected in the contribution rate on a regular basis.

COMMENT C: The contribution rates shown include amortization of the unfunded actuarial accrued liability over years. This is the maximum time period permitted by the Governmental Accounting Standards Board Statement No. 43 and No. 45. A shorter amortization period would result in a higher ARC.

SECTION C

SENSITIVITY ANALYSIS

Postemployment Health Insurance -- Sensitivity Tests

Actuarial valuations deal with the cost of benefits to be paid in the future. The payments considered will range from one month in the future to decades from the valuation date (for a young, newly hired employee who may retire many years from now and live many years after that). In order to establish a present day cost for these future benefit obligations, the actuary bases the valuation on a number of assumptions about future occurrences. The occurrences that must be considered include employee turnover, pay increases, disablement, retirements, deaths and investment income on anticipated plan assets.

When the benefits being valued are health care benefits, a key factor is the future cost of the medical benefits being promised. This is projected using the current cost of the System's health care benefits and assumed future health care cost increases. The final cost of providing retiree health care benefits will depend upon how the charges for health care services actually increase in the future.

In order to demonstrate how the cost of these benefits can vary depending upon future health care cost increases, we have performed additional valuations based upon alternative health care cost increase assumptions. The schedules on pages C-2 and C-3 compare (i) the computed cost of the retiree health care benefits using the valuation (Intermediate) assumptions to (ii) results of alternate valuations. One of the alternate valuations is based upon a pessimistic health care cost increase assumption. The other is based upon a more optimistic health care cost increase assumption. The schedule on page C-3 exhibits the health care cost increase assumptions used in each of the valuations.

CITY OF TYLER
SENSITIVITY ANALYSIS

The selection of future health care cost increases is one of the key assumptions in determining plan liabilities. If the health care cost trend rates upon which the calculation of the Annual Required Contribution is based were changed to either the pessimistic or optimistic trends noted on page C-4, the annual contribution for the combined groups (illustrated using the entry age normal funding method) would change as follows.

Contributions for	Development of the Annual Required Contribution		
	Fiscal Year Beginning 2010		
	Pessimistic	Intermediate	Optimistic
Employer Normal Cost	$966,120	$776,195	$629,027
Amortization of UAAL*	$2,980,335	$2,523,581	$2,151,540
Annual Required Contribution (ARC)	$3,946,455	$3,299,776	$2,780,567
ARC Per Active Participant	$4,964	$4,151	$3,497

* Unfunded Actuarial Accrued Liabilities (UAAL) were amortized over 30 years.
All three scenarios above based on an funded 7.50% discount rate

	Determination of Unfunded Actuarial Accrued Liability		
	Pessimistic	Intermediate	Optimistic
A. Present Value of Future Benefits			
i) Retirees and Beneficiaries	$33,836,726	$29,772,341	$26,355,904
ii) Vested Terminated Members	$0	$0	$0
iii) Active Members	$24,641,896	$19,759,845	$15,984,027
Total Present Value of Future Benefits	$58,478,622	$49,532,186	$42,339,931
B. Present Value of Future Normal Costs	$6,673,429	$5,168,027	$4,036,727
C. Actuarial Accrued Liabilities (A.-B.)	$51,805,193	$44,364,159	$38,303,204
D. Actuarial Value of Assets	$3,252,222	$3,252,222	$3,252,222
E. Unfunded Actuarial Accrued Liability (C.-D.)	$48,552,971	$41,111,937	$35,050,982
F. Funded Ratio (D./C.)	6.28%	7.33%	8.49%

CITY OF TYLER
SENSITIVITY ANALYSIS

Health care trend rates used in the sensitivity analysis are shown below.

Year	Medical and Prescription Drugs		
	Pessimistic	Intermediate	Optimistic
2010	11.50%	9.00%	6.50%
2011	10.75	8.50	6.25
2012	10.00	8.00	6.00
2013	9.25	7.50	5.75
2014	8.50	7.00	5.50
2015	7.75	6.50	5.25
2016	7.00	6.00	5.00
2017	6.50	5.50	4.50
2018	6.00	5.00	4.00
2019	5.50	4.50	3.50
2020	5.50	4.50	3.50
2021	5.50	4.50	3.50
2022	5.50	4.50	3.50
2023	5.50	4.50	3.50
2024	5.50	4.50	3.50
2025 & Later	5.50	4.50	3.50

SECTION D

RETIREE PREMIUM RATE DEVELOPMENT

Retiree Premium Rate Development

For Core Plan and Buy-up Plan Medical Coverage, the initial per capita costs were developed for the group of retirees (pre-65) using claims experience for January 2007 through December 2009 in conjunction with census data for the active employees and retired members of the retiree health care program. These claims were projected on an incurred claim basis, adjusted for plan design changes, large claims, and loaded for administrative expenses.

For Medicare Supplement Medical Coverage, the initial per capita costs were developed for the post-65 retirees. The fully-insured rates provided by the City were utilized to determine the appropriate premium rates. The true per capita cost for the post-65 retirees is developed by adjusting the demographic differences between the retirees to reflect this implicit rate subsidy for the retirees.

The costs developed based on the actual experience are used for both current and future retirees for all plans combined. An inherent assumption in this methodology is that the projected future retirees will have a similar distribution by plan type to the current retirees.

Age graded and sex distinct premiums are utilized by this valuation. These costs 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. The age/sex specific costs more accurately reflect the health care utilization and cost at that age.

The monthly one-person premium including medical and prescription drug benefits at select ages are shown below:

For those not eligible for Medicare		
Age	Male	Female
40	$248.86	$389.89
50	457.44	518.31
60	751.09	721.97
64	874.24	810.33

For those eligible for Medicare		
Age	Male	Female
65	$412.14	$379.52
75	527.77	468.39
85	588.51	516.68

RETIREE PREMIUM RATE DEVELOPMENT

Based on the guidance provided by GASB on issues related to Medicare Part D payments to State and Local Governments effective June 30, 2006, an employer should apply the measurement requirements of GASB Statement No. 45 to determine the actuarial accrued liabilities, the annual required contribution of the employer, and the annual OPEB cost without reduction for Retiree Drug Subsidy (RDS) payments. Therefore, the impact of the RDS that is part of the Medicare Prescription Drug Improvement and Modernization Act of 2003 is not reflected in this report.

SECTION E

SUMMARY OF BENEFITS

CITY OF TYLER
SUMMARY OF BENEFITS AS OF DECEMBER 31, 2009

Plan Participants

Retirees of the Municipality are eligible to receive full retiree health care benefits.

Normal Retirement Benefits

For General Employees (TMRS) - 5 years of service with TMRS and age 60 or 20 years of service at any age.
For Firefighters – age 50 with at least 25 years of service or age 55 with at least 20 years of service.

Health Care benefit Eligibility Conditions

Extension of **Coverage for Retirees Not Eligible for Medicare**
If an Employee is working for the City at the time of his retirement and is not eligible for Medicare (i.e. he is a "Non-Medicare Retiree"), then the Non-Medicare Retiree is eligible to continue Plan coverage for himself and his eligible Dependents. Retiree must inform the Finance Department not later than the date of his retirement if coverage is to be continued. Later election of extended coverage will not be permitted.

An Employee who elects to remain in the Plan as a Non-Medicare Retiree must continue to pay the portion of the cost of coverage for themselves and any eligible dependents covered at the time of retirement, and abide by other conditions of the Plan. Employees hired after January 1, 1997 must pay the full cost of coverage.

Employee Coverage Termination

An Employee's coverage under the Plan (including a retired Employee's coverage, as applicable) will terminate upon the earliest of the following:

On the date a retired Employee becomes eligible for Medicare.

Deferred Retirement Benefits

Members who terminate employment and choose to retire at a later date, are not eligible for retiree health care benefits.

Duty and Non-Duty Death in Service Retirement Benefits

Survivors of employees who die while actively employed are not eligible for retiree health care benefits, unless the employee was eligible to retire at the time they passed away, then the spouse may choose to retire in his place, draw monthly benefits, and stay on the insurance plan in the employee's place if they were covered at the time of the employee's death.

Duty and Non-Duty Disabled Retirement Benefits

Employees who retire under a disability retirement are eligible for retiree health care benefits if they are approved for a monthly annuity, but if they are issued a lump sum retirement benefit they will not be eligible for continued City of Tyler retiree insurance.

Benefits for Spouses of Retired Employees

Spouses of retired employees are eligible to receive retiree health care benefits if they are currently covered at the time of the retiree's death. Coverage continues to non-Medicare eligible surviving spouses of deceased retirees (they move into the retirees spot) or if Medicare eligible the spouse may continue on the Medicare Supplement, prescription plan and dental if also covered either in the City Health Plan or Medicare Supplement at the time of the retiree's death.

Medicare – Eligibility Provisions

Retirees are required to enroll in Medicare once eligible. The City pays 70% (Retiree) 40% (Spouse) of their Medicare Supplement Plan Premium. Those hired after January 1, 1997 will be required to pay the full cost of the Medicare supplement.

Prescription Drug Card – Medicare Retirees

Retirees participating in Medicare are eligible at enrollment for a Prescription Drug Card provided by the City's Health Plan. The Prescription Drug plan is Medicare Part D equivalent. The City pays 70% (Retiree) 40% (Spouse) for the Prescription Drug Card premiums. Those hired after January 1, 1997 will be required to pay the full cost of the premium. A spouse may enroll in the plan independent of the retiree as long as the retiree participates in the Medicare Supplement. If a retiree or spouse opts-out of the program they will not be eligible to opt back in at a future date.

Dental Coverage

Employees who retire are eligible for dental coverage for the retiree and their dependents if covered at the time of their retirement. Coverage continues when the retiree becomes eligible for Medicare.

Life Insurance Coverage

Retirees are covered for life insurance in the amount of $5,000.

Retiree Opt-Out

Retirees who decide to opt-out of the health care plan will not be eligible to opt back in for both non-Medicare and Medicare retirees. They also are not allowed to add dependents after retirement.

Employee/Retiree 2010 Monthly Health Care Premiums

2010 Health/Dental Retiree Rates		
Date of Hire	Before 01/01/1997	On and After 01/01/1997
Core Plan (Pre-65)		
Employee Only	$10.30	$431.23
Employee + Spouse	$144.20	$726.16
Employee +Child(ren)	$118.50	$629.31
Employee + Family	$175.10	$885.50
Buy-up Plan (Pre-65)		
Employee Only	$61.80	$482.73
Employee + Spouse	$247.20	$829.16
Employee +Child(ren)	$206.00	$716.86
Employee + Family	$298.70	$1,009.10
Dental (All ages)		
Employee Only	$6.54	$18.30
Employee + Spouse	$24.06	$37.18
Employee +Child(ren)	$23.30	$33.88
Employee + Family	$36.22	$50.42
Drug Card (Post-65)		
Employee Only	$62.64	$208.80
Employee + Spouse	$187.92	$417.60

2010 Medicare Supplement Rates (Employees or Spouses)*			
Attained Age	Area 1	Area 2	Area 3
65-66	$131.00	$143.00	$160.00
67-69	$164.00	$181.00	$199.00
70-74	$193.00	$212.00	$234.00
75-79	$217.00	$240.00	$263.00
80-84	$244.00	$271.00	$298.00
85+	$264.00	$292.00	$323.00

Area Definitions by 3-Digit Zip Code:
Area 1: 754-759, 763-769, 778-792, 795-799, 885
Area 2: 750-753, 760-762, 774, 776-777, 793-794
Area 3: 770-773, 775, all out of state zip codes

*Premiums may differ for retirees who live out-of-area, are disabled, or reached 65 before January 1, 2005.

CITY OF TYLER
SUMMARY OF BENEFITS AS OF DECEMBER 31, 2009

<u>Retirees Contributions for Medicare Supplement</u>

Hired before 01/01/1997	30% of retiree premium and 60% of spouse premium
Hired on and after 01/01/1997	100% of all premiums

SECTION F

SUMMARY OF PARTICIPANT DATA

CITY OF TYLER
TOTAL ACTIVE MEMBERS AS OF DECEMBER 31, 2009
BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	
Under 20	1							1
20-24	43							43
25-29	64	14						78
30-34	46	24	10					80
35-39	25	37	35	24				121
40-44	17	18	26	36	13			110
45-49	30	15	17	23	24	14		123
50-54	26	14	10	17	22	18	6	113
55-59	24	11	6	4	9	14	11	79
60-64	10	7	5	4	4	3	5	38
65 & Over	5	1	1		1		1	9
Totals	291	141	110	108	73	49	23	795

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

Age:	43.1	years
Service:	10.8	years

CITY OF TYLER
TOTAL RETIRED MEMBERS AS OF DECEMBER 31, 2009
BY ATTAINED AGE

Attained Age	Number of Retirees		
	Male	Female	Total
Under 55	49	15	64
55-59	36	9	45
60-64	54	24	78
65 & Over	211	77	288
Totals	**350**	**125**	**475**

The number counts above only include those retirees who have elected to receive retiree health care coverage through the City of Tyler Retiree Health Care Plan.

SECTION G

ACTUARIAL COST METHOD AND ACTUARIAL ASSUMPTIONS

VALUATION METHODS FOR
CITY OF TYLER
AS OF DECEMBER 31, 2009

Actuarial Cost Method. The **Projected Unit Credit Cost Method** was used in the valuation. The actuarial present value of benefits allocated to the valuation year is the Normal Cost. The actuarial present value of benefits allocated to all prior periods is the Actuarial Accrued Liability. 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 by level (principal & interest combined) percent-of-payroll contributions. The UAAL was determined using the funding value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL amortization payment (one component of the contribution requirement), is the level percent-of-payroll required to fully amortize the UAAL over a 30 year period.

Actuarial Value of System Assets. The Actuarial Value of Assets is set equal to the reported market value of assets. The assets are allocated among the divisions based on liabilities valued at 4.50%. The assets may not be allowed for consideration as GASB assets, but are shown for illustrative purposes.

ACTUARIAL ASSUMPTIONS FOR
CITY OF TYLER
AS OF DECEMBER 31, 2009

For the ***Funding Policy*** scenario, the rate of investment return was 7.50% a year, compounded annually net after investment expenses. The assumed real return is the rate of return in excess of price inflation. Considering other assumptions used in the valuation, the 7.50% nominal rate translates to a net real return of 4.50% a year.

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

TMRS Employees

Years of Service	% Increase in Salary at Sample Ages		
	Service Based Rates	Sample Ages	Age Based Rates
0	12.00	20	5.25
1	9.00	25	5.25
2	7.00	30	5.25
3	7.00	35	5.00
4	6.00	40	4.50
5	6.00	45	4.50
6	5.50	50	4.00
7	5.50	55	4.00
8	5.50	60	3.75
9	5.50	65	3.50

The payroll growth rate for financing Unfunded Actuarial Accrued Liabilities was assumed to be 3.00% per year.

Rates of salary increase for Firefighters are shown on the next page.

Firefighters

Years of Service	% Increase in Salary at Sample Ages		
	Merit & Seniority	Base (Economic)	Increase Next Year

ACTUARIAL ASSUMPTIONS FOR CITY OF TYLER AS OF DECEMBER 31, 2009 (CONTINUED)

1	6.24	4.00	10.24
2	6.24	4.00	10.24
3	6.24	4.00	10.24
4	6.24	4.00	10.24
5	6.24	4.00	10.24
6	2.60	4.00	6.60
7	2.60	4.00	6.60
8	2.60	4.00	6.60
9	2.60	4.00	6.60
10	2.60	4.00	6.60
11	2.08	4.00	6.08
12	2.08	4.00	6.08
13	2.08	4.00	6.08
14	2.08	4.00	6.08
15	2.08	4.00	6.08
16 & Over	0.00	4.00	4.00

The payroll growth rate for financing Unfunded Actuarial Accrued Liabilities was assumed to be 3.00% per year.

The rates of post retirement mortality used for individual members are in accordance with the following tables.

For normal retirees, the probabilities of dying at sample attained ages were as follows:

TMRS Employees

Sample Attained Ages	Probability of Dying Next Year (Healthy)		Future Life Expectancy (years)	
	Men	Women	Men	Women
50	0.21%	0.19%	30.80	32.65
55	0.36	0.31	26.18	27.99
60	0.67	0.58	21.74	23.50
65	1.27	1.10	17.61	19.32
70	2.22	1.86	13.88	15.50
75	3.78	3.10	10.57	12.09
80	6.44	5.08	7.75	9.12

Firefighters

Sample Attained Ages	Probability of Dying Next Year (Healthy)		Future Life Expectancy (years)	
	Men	Women	Men	Women
50	0.18%	0.18%	31.81	31.81
55	0.30	0.30	27.13	27.13
60	0.57	0.57	22.62	22.62
65	1.11	1.11	18.40	18.40
70	1.90	1.90	14.56	14.56
75	3.29	3.29	11.08	11.08
80	5.82	5.82	8.09	8.09

ACTUARIAL ASSUMPTIONS FOR CITY OF TYLER AS OF DECEMBER 31, 2009 (CONTINUED)

For disabled retirees, the probabilities of dying at sample attained ages were as follows:

TMRS Employees

Sample Attained Ages	Probability of Dying Next Year	
	Men	Women
50	2.38%	1.15%
55	3.03	1.65
60	3.67	2.18
65	4.35	2.80
70	5.22	3.76
75	6.58	5.22
80	8.70	7.23

Firefighters

Sample Attained Ages	Probability of Dying Next Year	
	Men	Women
50	0.18%	0.18%
55	0.30	0.30
60	0.57	0.57
65	1.11	1.11
70	1.91	1.91
75	3.29	3.29
80	5.82	5.82

These assumptions are used to measure the probabilities of each benefit payment being made after retirement.

The rates of mortality for active members are in accordance with the following tables.

TMRS Employees

Sample Attained Ages	Probability of Ordinary Death Next Year	
	Men	Women
20	0.03%	0.02%
25	0.04	0.02
30	0.04	0.03
35	0.07	0.05
40	0.10	0.07
45	0.14	0.11
50	0.20	0.17
55	0.32	0.27
60	0.59	0.51
65	1.13	0.97

Firefighters

Sample Attained Ages	Probability of Ordinary Death Next Year	Probability of Duty Death Next Year
20	0.0075%	0.0067%
25	0.0093	0.0077
30	0.0130	0.0081
35	0.0251	0.0116
40	0.0385	0.0112
45	0.0563	0.0098
50	0.0805	0.0087
55	0.1395	0.0101
60	0.0000	0.0000

The rates of retirement are used to measure the probability of eligible members retiring during the next year.

TMRS Employees: The rates of retirement used for this valuation for the TMRS Employees are summarized in the most recent TMRS actuarial pension valuation report with no adjustments.

Firefighters: The rates of retirement used for this valuation for Firefighters are 15% per year of those eligible to retire at ages 50 – 53, 30% per year for ages 54 – 59 and 100% at age 60.

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.

TMRS Employees

Years of Service	% of Active Members Separating Within Next Year	
	Male	Female
0	40.30	40.80
1	27.60	30.40
2	21.20	25.70
3	18.40	20.70
4	15.80	17.60
5	18.80	22.50
6	17.00	20.20
7	15.40	18.20
8	13.70	16.20
9	12.20	14.60
10	10.80	12.90
11	9.50	11.40
12	8.40	9.90
13	7.30	8.30
14	6.50	7.40
15	6.10	6.50
16	5.20	5.60
17	4.40	4.60
18	3.90	3.90
19	3.60	3.30

Rates of separation for Firefighters are shown on the following page.

Firefighters

Years of Service	% of Active Members Separating Within Next Year (Males and Females)
0	3.00%
1	2.70%
2	2.40%
3	2.10%
4	1.80%
5	1.60%
6	1.40%
7	1.20%
8	1.10%
9	1.00%
10	0.80%
11	0.70%
12	0.60%
13-16	0.50%
17-19	0.40%
20 & Over	0.00%

Rates of disability among active members.

TMRS Employees

Ordinary Disability		
Sample Ages	% Becoming Disabled within Next Year	
	Male	Female
20	0.00%	0.00%
25	0.00	0.00
30	0.01	0.00
35	0.03	0.01
40	0.07	0.04
45	0.13	0.08
50	0.21	0.13
55	0.31	0.22
60	0.38	0.30
65	0.38	0.30

Firefighters

Ordinary Disability	
Sample Ages	% Becoming Disabled within Next Year*
20	0.01%
25	0.02
30	0.03
35	0.05
40	0.09
45	0.21
50	0.38
55	0.00

Health cost increases are displayed in the following table:

Year	Health Care Trend Inflation Rates Medical and Drug
2010	9.0
2011	8.5
2012	8.0
2013	7.5
2014	7.0
2015	6.5
2016	6.0
2017	5.5
2018	5.0
2019	4.5
2020	4.0
2021	4.5
2022	4.5
2023	4.5
2024	4.5
2025 & later	4.5

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS FOR CITY OF TYLER AS OF DECEMBER 31, 2009

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

Decrement Operation Disability and mortality decrements do not operate during the first 5 years of service. Disability will also operate during retirement eligibility.

Decrement Timing Decrements of all types are assumed to occur mid-year.

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 percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.

Marriage Assumption For TMRS Employees: 100% of males and 100% of females are assumed to be married at time of decrement; and for Firefighters: 90% of males and 90% of females are assumed to be married at time of decrement. Male spouses are assumed to be three years older than female spouses for active member valuation purposes.

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.

Election Percentage It was assumed that: (i) for retirees who were hired before January 1, 1997: 60% of pre-65 and 60% of post-65 males along with 50% of pre-65 and 60% of post-65 females and (ii) for retirees who hired on or after January 1, 1997: 20% (regardless of age or gender), would choose to receive retiree health care benefits through the City. Of those assumed to elect coverage, it is assumed that an employee who elected single person coverage before retirement would continue single person coverage when retired. Of those assumed to elect coverage, it is assumed that 50% of male employees and 10% of female employees who elected two-person coverage before retirement would elect two-person coverage when retired. For those that elect two-person coverage, it was assumed that coverage would continue to the spouse upon death of the retiree, if eligible.

APPENDIX

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.

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 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.

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 Post-Employment Employee Benefits (OPEB). OPEB are post-employment benefits other than pensions. OPEB generally takes the form of health insurance and dental, vision, prescription drugs 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.

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

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