MEMORANDUM

TO: Judith Zimomra, City Manager

FROM: Sylvia Edwards, Finance Director

DATE: March 5, 2013

RE: Other Post-Employment Benefits (OPEB) October 1, 2012 Actuarial Report

This memorandum is provided as an introduction to the OPEB, October 1, 2012 Actuarial Report.

Government Accounting Standards Board (GASB) standards 43 and 45 direct how state and local governments account for and report OPEB that are separate from pension benefits. The GASB standards require the accounting for OPEB on an accrual basis, matching the cost of future benefits with the time period in which they were earned. OPEB are those benefits that an employee will begin to receive at the start of retirement, which does not include pension benefits paid to the retired employee. Other post-employment benefits for the City of Sanibel relate only to the eligibility of retirees to participate in the City's health insurance plan although retirees pay 100% of the total cost of coverage.

Annually, the City's Actuary, Foster & Foster, Inc., prepares an actuarial report summarizing the City's required funding and annual rate subsidy payment to the OPEB Trust Fund. Based on the October 1, 2012 Actuarial Valuation, the City's OPEB unfunded actuarial accrued liability (UAAL) is $631,325. This is an increase of $254,348 from the previous year's report. The primary increase is the return of $153,507 to the City after it was determined that the OPEB Trust Fund established in 2007 by City ordinance failed to meet the Trust definition in that there was no real trust document. The assumed interest rate of return was lowered from 8% to 5% since the plan is no longer considered a funded plan. This unfunded liability is amortized over a 30-year period.

The UAAL is determined based on actuarial assumptions and funding methods. With six years of experience available, the actuarial assumptions need to be reviewed and amended as necessary after the completion of an actuarial experience study.

The net OPEB obligation required to be accrued on the government-wide and proprietary funds financial statements as of September 30, 2012 is $183,311. Required contributions are based on projected pay-as-you go financing. The net OPEB obligation is the cumulative difference between the annual OPEB cost determined in accordance with the requirements of Statement 45 and the amounts actually contributed in relation to the annual required contribution (ARC). For fiscal year 2012 the City provided estimated contributions of $28,405 toward implicit rate subsidy benefits and administrative expenses payable during the year.

The assets that were accumulated in the trust fund would have eventually returned to the City in future years as the City incurred the cost of paying the implicit rate subsidy. The pay-as-you go funding versus a funded plan requires recognizing the liability in the government-wide and proprietary funds financial statements versus in a separate trust fund offset by assets contributed by the City. .

CITY OF SANIBEL
OTHER POSTEMPLOYMENT BENEFITS PROGRAM

ACTUARIAL VALUATION
AS OF OCTOBER 1, 2012

CONTRIBUTIONS APPLICABLE TO THE
PLAN/FISCAL YEAR ENDING
SEPTEMBER 30, 2013

FOSTER & FOSTER
ACTUARIES AND CONSULTANTS

February 19, 2013

Ms. Sylvia Edwards
Finance Director
City of Sanibel
800 Dunlop Road
Sanibel, FL 33957

Re: City of Sanibel - October 1, 2012 OPEB Valuation Report

Dear Ms. Edwards:

We are pleased to present to the City this report of the annual actuarial valuation of the City of Sanibel's Other Postemployment Benefits (OPEB) Program. This valuation was performed to determine annual expenses associated with providing OPEB benefits, the current funded status of the Plan, and to provide all necessary schedules necessary to comply with the Governmental Accounting Standards Board No. 45.

The valuation has been conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board, and reflects all applicable federal laws and regulations. In our opinion, the assumptions used in this valuation, as adopted by the City, represent reasonable expectations of anticipated plan experience.

In conducting the valuation, we have relied on personnel and plan design information supplied by the City, and the actuarial assumptions and methods described in the Actuarial Assumptions section of this report. While we cannot verify the accuracy of all this information, the supplied information was reviewed for consistency and reasonableness. As a result of this review, we have no reason to doubt the substantial accuracy of the information and believe that it has produced appropriate results. This information, along with any adjustments or modifications, is summarized in various sections of this report.

The undersigned is familiar with the immediate and long-term aspects of OPEB valuations, and meets the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. All of the sections of this report are considered an integral part of the actuarial opinions.

To our knowledge, no associate of Foster & Foster, Inc. working on valuations of the program has any direct financial interest or indirect material interest in the City of Sanibel, nor does anyone at Foster & Foster, Inc. act as a member of the Board of Commissioners of the City of Sanibel. Thus, there is no relationship existing that might affect our capacity to prepare and certify this actuarial report.

If there are any questions, concerns, or comments about any of the items contained in this report, please contact either Brad or Aimee at 239-433-5500.

Respectfully submitted,

Foster & Foster, Inc.

By: ______________________
Bradley R. Heinrichs, FSA, EA, MAAA

By: ______________________
Aimee M. Strickland, FSA, EA, MAAA

BRH\le

Enclosures

Table of Contents

SECTION 1 - INTRODUCTION
EXECUTIVE SUMMARY

The regular annual actuarial valuation of the City of Sanibel Other Postemployment Benefits (OPEB) Program, performed as of October 1, 2012, has been completed and the results are presented in this Report. For purposes of this valuation, Medical and Dental Insurances were taken into consideration. The results of this valuation are applicable to the plan/fiscal year ending September 30, 2013.

The following table shows the components of the City's Net OPEB Obligation:

Valuation Date **Applicable for Fiscal Year Ending**	**10/1/2011** **9/30/2012**	**10/1/2012** **9/30/2013**
Annual Required Contribution	$ 58,209	$ 70,299
As a Percent of Covered Payroll	1.2%	1.2%
Interest on Net OPEB Obligation	$ 0	$ 9,166
Adjustment to Annual Required Contribution	0	(7,345)
Annual OPEB Cost (Expense)	$ 58,209	$ 72,120
Estimated Net Contributions Made	N/A	(38,548)
Actual Net Contributions Made	(28,405)	N/A
Increase (Decrease) in Net OPEB Obligation	$ 29,804	$ 33,572
Net OPEB Obligation – Beginning of Year	$ 0	$ 183,311
Adjustment for Asset Transfer to City - End of Year	153,507	N/A
Net OPEB Obligation – End of Year	$ 183,311	$ 216,883

The numbers shown above reflect a decision to no longer fund the program. All assets previously held in a separate trust fund have been transferred back to the City, resulting in a one-time adjustment to the Net OPEB Obligation as of September 30, 2012. The interest rate has also been lowered from 8% to 5% since the plan is no longer considered a funded plan.

The Annual Required Contribution (ARC) for the program is developed by valuing the implicit subsidies promised to current and future retirees. The plan exhibited an overall cost increase during the fiscal year primarily due to the dissolution of the OPEB trust, lowering of the interest rate and updated medical inflation rates. This increase was offset in part due to the updated per capita claims costs being lower than expected.

The balance of this Report presents additional details of the actuarial valuation and the general operation of the Fund. The undersigned would be pleased to meet with the Board of Trustees in order to discuss the Report and any pending questions concerning its contents.

Respectfully submitted,

FOSTER & FOSTER, INC.

By: Bradley R. Heinrichs
Bradley R. Heinrichs, FSA, MAAA

By: Aimee M. Strickland
Aimee M. Strickland, FSA, MAAA

GLOSSARY OF ACTUARIAL TERMS

Actuarial Present Value is the amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

1. adjusted for the probable financial effect of certain intervening events
2. multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and
3. discounted according to an assumed rate (or rates) of return to reflect the time value of money.

Actuarial Cost Method is a procedure for determining the Present Value of plan benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Liability.

Total Annual Payroll is the annual rate of pay for the fiscal year prior to the valuation date of all covered members.

Present Value of Benefits is the single sum value on the valuation date of all future benefits to be paid to current Members, Retirees, Beneficiaries, Disability Retirees and Vested Terminations.

Normal (Current Year's) Cost is the portion of the Actuarial Present Value of plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

Actuarial Accrued Liability is the portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of plan benefits and expenses which is not provided for by future Normal Costs.

Unfunded Actuarial Accrued Liability (UAAL) is a liability which arises when a plan is initially established or improved and such establishment or improvement is applicable to all years of past service. Under the Entry Age Normal Actuarial Cost Method, there is also a new UAAL created each year equal to the actuarial gain or loss for that year.

Annual Required Contribution (ARC) represents the level of employer contribution effort that would be required on a sustained, ongoing basis to:

1. fund the Normal Cost (cost associated with new services received) each year and
2. amortize the total unfunded actuarial liabilities (or funding excess) attributed to past services over a maximum of thirty years.

The ARC is used for accrual accounting purposes, not for funding purposes. It is a basis for the allocation of the employer's projected cost of providing Other Post Employment Benefits (OPEB) over periods that approximate the periods in which the employer receives services from the covered employees. Accordingly, the ARC is used as the foundation on which the measurement of the employer's Annual OPEB Cost is based.

Annual OPEB Cost is equal to the ARC with two required adjustments that, together, are designed to keep accounting and actuarial valuations in sync going forward when an employer has contributed less or more than the ARC in past years. For an employer with no Net OPEB Obligation, the Annual OPEB Cost is equal to the ARC.

Net OPEB Obligation (or asset) is a liability (or asset) recognized in an employer's government-wide statement of net assets, and in the financial statements of proprietary or fiduciary funds, that is essentially the cumulative difference between the Annual OPEB Cost determined in accordance with the requirements of Statement 45 and the amounts actually contributed in relation to the ARC.

Entry Age Normal Actuarial Cost Method is the method used to determine required contributions under the Plan. The use of this method involves the systematic funding of the Normal Cost (described above) and the Unfunded Accrued (Past Service) Liability.

SECTION 2 - NOTES TO THE FINANCIAL STATEMENTS

This actuarial valuation involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to constant revision as actual experience is compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Calculations are based upon the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of sharing of costs between the employer and plan members to that point. Calculations reflect a long-term prospective, so methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

For the Actuarial Valuation, the Entry Age Normal (level % of pay) actuarial cost method was used. Select Actuarial Assumptions are listed in the table below:

Funding Interest Rate:	5.0%
Health Care Inflation:	Pre-Medicare: 8.5% (grading down to 5% in 2017); Post-Medicare: 8.5% (grading down to 5% in 2017)
Payroll Growth/Inflation Assumption:	4.0%
Amortization of UAAL:	Level Percentage of Payroll (Closed Amortization over 30 Years)

Employee Contribution Information

Retirees participating in the group insurance plans offered by the City of Sanibel are required to contribute 100% of the active premiums. In future years, contributions are assumed to increase at the same rate as premiums.

Note that the projected employee contributions for the Dental benefit are assumed to cover the entire cost of the program.

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SECTION 2 – NOTES TO FINANCIAL STATEMENTS

Valuation Date	10/1/2011	10/1/2012
Applicable for Fiscal Year Ending	9/30/2012	9/30/2013
Annual Required Contribution	$ 58,209	$ 70,299
Interest on Net OPEB Obligation	0	9,166
Adjustment to Annual Required Contribution	0	(7,345)
Annual OPEB Cost/(Expense)	$ 58,209	$ 72,120
Net Contributions Made	(28,405)	(38,548)
Anticipated Increase/(Decrease) in Net OPEB Obligation	$ 29,804	$ 33,572
Net OPEB Obligation - Beginning of Year	$ 0	$ 183,311
Adjustment for Asset Transfer to City - End of Year	153,507	N/A
Estimated Net OPEB Obligation - End of Year	$ 183,311	$ 216,883

Funded Status as of:	**10/1/2011**	**10/1/2012**
Actuarial Accrued Liability (AAL)	$ 530,484	$ 631,325
Actuarial Value of Assets (AVA)	(153,507)	0
Unfunded Actuarial Accrued Liability (UAAL)	$ 376,977	$ 631,325
Funded Ratio	28.9%	0.0%
Covered Payroll	$ 4,993,719	$ 5,787,718
Ratio of UAAL to Covered Payroll	7.5%	10.9%

Notes (continued)

Three Year Trend Information

Year Ending	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
9/30/2013	$ 72,120	53.4%	$ 216,883
9/30/2012	58,209	48.8%	183,311
9/30/2011	52,480	100.0%	0

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) EAN (b)	Unfunded AAL EAN (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
10/01/2012	$ 0	$ 631,325	$ 631,325	0.00%	$ 5,787,718	10.9%
10/01/2011	153,507	530,484	376,977	28.94%	4,993,719	7.5%
10/01/2010	129,012	377,652	248,640	34.16%	6,672,366	3.7%

SECTION 3 - DEVELOPMENT OF ANNUAL OPEB EXPENSE

Valuation Date	10/1/2011	10/1/2012
Applicable for Fiscal Year Ending	9/30/2012	9/30/2013
Unfunded Actuarial Accrued Liability at Beginning of Fiscal Year		
Actuarial Accrued Liability	$ 530,484	$ 631,325
Actuarial Value of Assets	(153,507)	0
Unfunded Actuarial Accrued Liability	$ 376,977	$ 631,325
Amortization of Unfunded Actuarial Accrued Liability		
Amortization Period	30	30
Amortization Method	Closed	Closed
Discount Rate	8.00%	5.00%
Payroll Growth Rate	4.00%	4.00%
Total Amortization Amount	$ 22,752	$ 27,093
Development of Annual Required Contribution (ARC) for Fiscal Year		
Normal Cost at Valuation Date	$ 31,857	$ 40,101
Interest on Normal Cost	1,780	1,750
Normal Cost Component	$ 33,637	$ 41,851
Amortization Amount at Valuation Date	$ 22,752	$ 27,093
Amortization Interest	1,820	1,355
Amortization Component	$ 24,572	$ 28,448
Annual Required Contribution	$ 58,209	$ 70,299
As of Percent of Covered Payroll	1.17%	1.21%
Development of Annual OPEB Cost for Fiscal Year		
Annual Required Contribution	$ 58,209	$ 70,299
Net OPEB Obligation, Beginning of Year	$ 0	$ 183,311
Discount Rate	8.00%	5.00%
Interest on Net OPEB Obligation	$ 0	$ 9,166
Adjustment to Annual Required Contribution	$ 0	$ (7,345)
Annual OPEB Cost	$ 58,209	$ 72,120

SECTION 4 - RECONCILIATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY

(1)	Unfunded Actuarial Accrued Liability as of October 1, 2011	$376,977
(2)	Expected Normal Cost as of October 1, 2011	22,255
(3)	Expected Administrative Expenses during fiscal 2012	9,602
(4)	Interest on (1), (2) and (3)	31,938
(5)	Sponsor Contributions to the System during the year ending September 30, 2012, including interest **	(125,102)
(6)	Expected Unfunded Accrued Liability as of October 1, 2012 (1)+(2)+(3)+(4)-(5)	565,874
(7)	Unfunded Accrued Liability as of October 1, 2012	631,325
(8)	Change to UAAL due to Actuarial (Gain)/Loss (7)-(6)	65,451

*** No cash contributions were made to the trust for Fiscal year 2012. This amount represents the transfer of the final asset balance to City as of September 30, 2012, adjusted for implicit benefits (including administrative expenses) payable during the year.*

SECTION 5 - SCHEDULE OF OUTSTANDING BASES

Description	Date Established	Years Remaining	Outstanding Amount	Amortization Amount
Initial Unfunded AAL	10/1/2006	24	$ 416,088	$ 19,311
Actuarial Loss	10/1/2007	25	78,403	3,509
Actuarial Gain	10/1/2008	26	(126,089)	(5,452)
Actuarial Gain	10/1/2009	27	(142,543)	(5,962)
Actuarial Loss	10/1/2010	28	29,135	1,180
Actuarial Loss	10/1/2011	29	127,585	5,014
Actuarial Loss	10/1/2012	30	65,451	2,498
Contribution Loss	10/1/2012	30	183,295	6,995
Total			$ 631,325	$ 27,093

SECTION 6 – TRUST FUND

BALANCE SHEET
September 30, 2012

ASSETS	MARKET VALUE
Total Cash and Equivalents	0.00
TOTAL ASSETS	0.00
LIABILITIES AND NET ASSETS	
Liabilities:	
Payable:	
Benefit Payments (Implicit Subsidy paid to City)	0.00
Total Liabilities	0.00
Net Assets:	
Active and Retired Members' Equity	0.00
Total Net Assets	0.00
TOTAL LIABILITIES AND NET ASSETS	0.00

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
September 30, 2012
Market Value Basis

INCOME		
Contributions:		
City	0.00	
Total Contributions		0.00
Earnings from Investments		
Interest & Dividends	0.00	
Net Realized Gain (Loss)	0.00	
Unrealized Gain (Loss)	0.00	
Total Earnings and Investment Gains		0.00
EXPENSES		
Administrative Expenses:		
Investment Related*	0.00	
Other	9,602.00	
Total Expenses		9,602.00
Distributions:		
Benefit Payments (Implicit Subsidy to City)	18,803.00	
Asset Transfer	125,102.00	
Total Distributions		143,905.00
Change in Net Assets for the Year		(153,507.00)
Net Assets Beginning of the Year		153,507.00
Net Assets End of the Year		0.00

*Investment Related expenses include investment advisory, custodial and performance monitoring fees.

SECTION 7 - PER CAPITA CLAIMS COSTS AND CONTRIBUTION AMOUNTS

2012-2013 Per Capita Annual Medical and Dental Claims Costs Per Participant

Program	Pre 65 Cost	Post 65 Cost
Medical Insurance	$13,568	$3,766
Dental Insurance	$312	$312

2012-2013 Annual Premium Amounts Per Participant

Program	Employee Contribution
Medical Insurance	$7,536
Dental Insurance	$312

SECTION 8 - MEMBER STATISTICS

STATISTICAL DATA

	10/1/2012
Number of Active Participants (Including DROP)	104
Average Current Age	49.0
Average Age at Employment	36.6
Average Past Service	12.4
Average Annual Salary	$55,651
Number of Retirees (with Medical Coverage)	
Pre-Medicare	5
Post-Medicare	0
Total	5
Average Current Age of Retirees	58.6
Number of Covered Spouses (Includes Beneficiaries of Deceased Retirees)	
Pre-Medicare	0
Post-Medicare	0
Total	0
Average Current Age of Spouses	N/A

AGE AND SERVICE DISTRIBUTION

PAST SERVICE

AGE	0	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	Total
20 - 24	0	1	0	0	0	0	0	0	0	0	1
25 - 29	0	0	4	0	0	0	0	0	0	0	4
30 - 34	0	2	4	1	0	0	0	0	0	0	7
35 - 39	0	1	5	2	2	0	0	0	0	0	10
40 - 44	1	0	2	1	3	0	0	0	0	0	7
45 - 49	1	1	7	1	3	3	2	0	0	0	18
50 - 54	0	2	6	4	4	3	1	2	0	0	22
55 - 59	2	2	7	5	1	3	3	0	0	0	23
60 - 64	0	1	5	1	1	1	0	2	0	0	11
65+	0	0	0	0	0	0	0	1	0	0	1
Total	4	10	40	15	14	10	6	5	0	0	104

SECTION 9 - ACTUARIAL ASSUMPTIONS AND FUNDING METHODS

Actuarial Assumptions

Valuation/Measurement Date	October 1, 2012.
Fiscal Year End	September 30.
Actuarial Value of Assets	Market Value.
Mortality Rate	RP-2000 Combined Mortality Table.
Interest Rate	5.0% per year, compounded annually, net of investment related expenses.
Retirement Age	
General Employees	For participants with at least 15 years of service as of December 31, 2011, age 60 and 5 years of service. For participants with less than 15 years of service as of December 31, 2011, age 65 and 6 years of service.
Police Pension Plan Employees	Age 60 and 5 years of service, age 55 and 10 years of service, or 25 years of service, regardless of age.
Early Retirement Age	
General Employees	Employees with at least 15 years of service as of December 31, 2011 may retire early at age 55 and 5 years of service. Employees with less than 15 years of service as of December 31, 2011 may retire early at age 60 and 6 years of service. Members are assumed to retire early at the rate of 5% per year. Disabled employees are assumed to retire at age 55 regardless of service.
Police Pension Plan Employees	Employees may retire early at age 50 and 5 years of service. Members are assumed to retire early at the rate of 2% per year. Disabled employees are assumed to retire at age 50 regardless of service.
Marital Status	80% assumed married, with male spouses 3 years older than female spouses.

Actuarial Assumptions (continued)

Termination Rates — See table below.

Disability Rates — See table below.

Age	% Terminating During the Year	% Becoming Disabled During the Year
20	17.93%	0.12%
30	10.48	0.16
40	8.23	0.27
50	7.18	0.89

Health Care Participation — 40% participation assumed, with 50% electing spouse coverage.

Dental Care Participation — 40% participation assumed, with 50% electing spouse coverage.

Health Care Inflation

Pre-Medicare — 8.5% in 2013, decreasing 1% each year until the ultimate rate of 4.5% in 2017.

Post-Medicare — 8.5% in 2013, decreasing 1% each year until the ultimate rate of 4.5% in 2017.

Medical Aging Factors — 4% per year prior to age 65;
3% per year between ages 65 and 75;
2% per year between ages 75 and 85;
0% per year thereafter.

Medical Claims — Developed using a blend of manual and active fully insured rates.

Administrative Expenses — $10,082 annually, added to Normal Cost.

Salary Rate Increase — 5.5% per year

Payroll Growth/Inflation — 4.0% per year.

Funding Method — Entry Age Normal Actuarial Cost Method (Level Percent of Pay).

SECTION 10 - SUMMARY OF PLAN PROVISIONS

Credited Service	Total completed years of employment with the City.
Eligibility for Insurance Coverage	
General Employees	For employees with at least 15 years of service as of December 31, 2011, age 60 and 5 years of service. Employees may retire early at age 55 and 5 years of service. For employees with less than 15 years of service as of December 31, 2011, age 65 and 6 years of service. Employees may retire early at age 60 and 6 years of service. Disabled employees are assumed to retire at age 55 regardless of service worked.
Police Pension Plan Employees	Age 60 and 5 years of service, 55 and 10 years of service, or 25 years of service, regardless of age. Employees may retire early at age 50 and 5 years of service. Disabled employees are assumed to retire at age 50 regardless of service worked.
Medical and Dental Contributions	
Employee	100% of the Active Premium Rate.
City	Remaining amount necessary for payment of claims.