City of Allentown Retiree Healthcare Plan

Actuarial Valuation as of January 1, 2012

Gregory M. Stump, FSA, MAAA

Karen T. Earley, FSA, MAAA

May 14, 2012

EFI ACTUARIES | EFI ASSET/LIABILITY MANAGEMENT SERVICES, INC.

The nation's leader in plan-specific, interactive asset allocation optimization counseling

WASHINGTON, DC ■ PHILADELPHIA ■ SEATTLE ■ SAN FRANCISCO

Contents

Executive Summary **1**

Changes in Plan Cost 2

Actuarial Certification 2

Section 1: Summary of Plan Provisions, Member Statistics, and Actuarial Assumptions **3**

1.1: Brief Outline of Plan Provisions 4

1.2: Participant Data 6

1.3: Actuarial Methods and Assumptions 7

Section 2: Actuarial Computations **13**

2.1: Computation of Annual Required Contribution (ARC): Pay-as-you-go 14

2.2: Allocation of Pay-as-You-Go Annual Required Contribution (ARC) to Groups 15

2.3: Projection of Estimated Post-Retirement Benefits 16

Section 3: Disclosure Information **17**

Schedules of Funding Status and Employer Contributions Required Under GASB Statement No. 45 18

Appendix: Alternate Scenarios **20**

Healthcare Inflation 21

Funding Policy and Implications 21

Executive Summary

EFI Actuaries, under contract with the City of Allentown (the City), performed an actuarial valuation of the City's OPEB as of January 1, 2012. The purposes of this actuarial valuation are:

- To compute the annual contribution required to fund the healthcare benefits of the City's current and future retirees on an actuarial basis.
- To present items which are required for disclosure under applicable governmental accounting standards.

The actuarial cost of the Plan as of January 1, 2012 is 10.43% of payroll. Applying this percentage to the expected payroll for Fiscal Year 2012, the corresponding Annual Required Contribution (ARC) is $4.8 million. Employer benefit payments are expected to be approximately $2.9 million, representing the amount of the total anticipated pay-as-you-go amount.

The results in the Table below are based on the Entry Age Normal funding method with a level percentage of payroll amortization (26 years remaining as of 1/1/2012) of the unfunded actuarial accrued liability (UAAL) and pay-as-you-go financing.

Summary of OPEB Liabilities and Costs (no pre-funding assumed)

($ millions)	1/1/2010	1/1/2012
Fully Projected Liability	$ 70.3	$ 84.4
Entry Age Accrued Liability	50.2	61.4
Assets	0	0
Unfunded Accrued Liability (UAL)	50.2	61.4
Entry Age Normal Cost	$ 1.8	$ 2.2
Normal Cost as a Percentage of Pay	3.91%	4.72%
Amortization of UAL as a Percentage of Pay	4.06%	5.49%
Total Cost as a Percentage of Pay	7.97%	10.21%
ARC for Fiscal Year	$ 3.8	$ 4.7

Changes in Plan Cost

There were several factors impacting the increase in plan costs from 2010 to 2012:

1. Expected Increases: Considering the pay-as-you-go nature of financing, costs will generally rise over time as no prefunding is set aside to finance increasing benefits. Another factor contributing to this is the closed amortization of unfunded actuarial liabilities as a percentage of payroll, which generally increases over time as well.
2. Demographic Experience: There are fewer active employees covered under the Plan than there were in the prior valuation; however, there are more retirees receiving benefits.
3. Claims Experience: Claims experience over the past two years was lower than expected, serving to decrease costs somewhat. The overall per capita claims cost for 2011 was about 5% lower than expected based on the prior valuation.
4. Premium Increases: The increase in premiums from 2010 to 2012 was lower than expected relative to increases in per capita costs. This implies a lower retiree cost share, and higher employer costs. This factor was the most significant driver of the increase in the cost of the Plan.
5. Future Medical costs: The expected future medical costs are expected to be higher than previously believed. This is based on analysis of overall expected trends in national healthcare costs, including the impact of the Patient Protection and Affordable Care Act (PPACA).

Actuarial Certification

This report has been prepared for use by the management of the City of Allentown (the City). Accordingly, this report may not be distributed to any third party outside the City without EFI's written consent. If distribution of the report is made outside of the City, the report must be provided in its entirety. This report is a complex analysis that assumes a high level of technical knowledge concerning the City's operations, and uses the City's data, which EFI has not audited.

On the basis of the forgoing, we hereby certify that, to the best of our knowledge and belief, the report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial methods and procedures which are consistent with the applicable Actuarial Standards of Practice of the American Academy of Actuaries. The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Gregory M. Stump, FSA, MAAA

Karen T. Earley, FSA, MAAA

Section 1:

Summary of Plan Provisions, Member Statistics, and Actuarial Assumptions

1.1: Brief Outline of Plan Provisions

Service Employees International Union (SEIU)

If a covered employee retires, he/she may elect to enroll in the health care coverage provided to active employees. Coverage for the retiree and dependents will remain in effect until the retiree has reached the age of 65. Coverage includes the retiree's spouse and eligible dependents; however, spouse and dependent coverage will cease at the retiree's death.

Retirees may opt out of coverage at the time of retirement, and will be allowed to opt-in at a later date. This option can only be exercised only once for each retiree.

Employees may retire after earning ten years of service and receive benefits beginning at age 55, and will pay 50% of the monthly health insurance/prescription drug coverage. This portion decreases to 25% if the retire has earned at least fifteen years of service with the City. The 25% rate also applies to those retired before 1/1/2001.

Fraternal Order of Police Bargaining Unit

If a covered employee retires, he/she may elect to enroll in the health care coverage provided to active employees. Coverage begins upon retirement and will remain in effect until the retiree has reached the age of 65. Coverage includes the retiree's spouse and eligible dependents; however, spouse and dependent coverage will cease at the retiree's death.

Retirees may opt out of coverage at the time of retirement, and will be allowed to opt-in at a later date. This option can only be exercised only once for each retiree.

Employees may retire after earning twenty years of service, and will pay 25% of the monthly health insurance/prescription drug coverage.

International Association of Fire Fighters

If a covered employee retires, he/she may elect to enroll in the health care coverage provided to active employees. Coverage begins at age 55 (50 if retired on or after 1/1/2005) and will remain in effect until the retiree has reached the age of 65. Coverage includes the retiree's spouse and eligible dependents; however, spouse and dependent coverage will cease at the retiree's death.

Retirees may opt out of coverage at the time of retirement, and will be allowed to opt-in at a later date. This option can only be exercised only once for each retiree.

Employees may retire after earning twenty years of service, and will pay 25% of the monthly health insurance/prescription drug coverage.

Non-Bargaining Unit Employees

If a covered employee retires, he/she may elect to enroll in the health care coverage provided to active employees. Coverage for the retiree and dependents will remain in effect until the retiree has reached the age of 65. Coverage includes the retiree's spouse and eligible dependents; however, spouse and dependent coverage will cease at the retiree's death.

Retirees may opt out of coverage at the time of retirement, and will be allowed to opt-in at a later date. This option can be exercised only once for each retiree.

Employees may retire after reaching age 55 and earning at least fifteen years of service. The retiree will pay 25% of the monthly health insurance/prescription drug coverage. A lower 15% rate applies to those who retired on 9/4/2009. However, no such retirees are identified in the data provided by the City.

Healthcare Premiums

The premiums for healthcare and prescription drug coverage for 2010 are shown in the table below.

Assumed Full Monthly Premium Amount*

Retiree Only	Retiree and One Child	Retiree and Children	Retiree and Spouse	Retiree and Family
624.84	816.34	1,022.10	1,257.18	1,551.25

* Amounts are slightly different for certain retirees, depending upon their retirement dates and bargaining units. These are the averages used for valuation purposes

Funding

The City's retiree healthcare plan is a self-funded program, in which retiree premiums are based on the premium equivalents shown in the table above. The cost of the benefits provided by the Plan is currently being paid by the City on a pay-as-you-go basis.

Changes in Plan Provisions

There have been no changes in Plan provisions since the prior valuation.

1.2: Participant Data

Data for active and inactive Participants and their beneficiaries was supplied electronically by the City and the City's healthcare consultant. Participant data was reviewed for reasonableness and consistency with the prior valuation, but was neither verified nor audited.

A summary of data as of January 1, 2012 is shown below.

Active Participants	**Police**	**Fire**	**All Others**	**Total**	**2010 Total**
Number of Active Employees	200	107	512	819	863
Average Age	38.0	38.4	47.1	43.8	44.1
Average Service	10.4	9.5	14.2	12.8	13.2
Inactive Participants (Pre-65 Only)					
Number of Retired Participants	157	83	117	357	282
Average Age	54.8	54.5	60.9	56.8	55.7
Number of Retired Participants Currently Receiving Benefits (does not include spouses or dependents)	104	42	115	261	222

The following table is a summary of the current assumed healthcare coverage levels for retired participants who have elected to purchase health insurance from the City. Those with no coverage may elect to obtain coverage from the City, in accordance with opt-in provisions. Members reported as retiring before age 40 are assumed to be disabled.

Coverage Level	**Police**	**Fire**	**All Others**	**Total**	**2010 Total**
No Coverage	53	41	2	96	60
Single Coverage	20	10	33	63	57
Two-Party Coverage	52	28	77	157	107
Family Coverage	32	4	5	41	58
Total	157	83	117	357	282

1.3: Actuarial Methods and Assumptions

Actuarial Method

A description of the Entry Age Normal Cost Method is as follows:

Normal Cost

- The liability for all future healthcare benefits payable by the City to current and future retired employees is computed. This is called the Fully Projected Liability.
- Entry age is established based on the service provided in the data from the City.
- A portion of the Fully Projected Liability is assigned for each participant to estimated prior Entry Age Normal costs, based on assumed past earnings This sum of these portions is called the Actuarial Accrued Liability (AAL).
- The excess of the total Fully Projected Liability over the Actuarial Accrued Liability is divided by the present value of future pay to determine the Normal Cost as a percentage of pay. The percentage for each individual is multiplied by their respective pay. The sum of these is the Employer Normal Cost.
- The Employer Normal Cost is divided by the total payroll to determine Employer Normal Cost as a percentage of payroll.

Amortization Cost

- The actuarial value of the assets on hand to pay future benefits is subtracted from the Actuarial Accrued Liability, producing the Unfunded Actuarial Accrued Liability (UAAL).
- The UAAL determined from this valuation is amortized as a level percentage of pay (assuming 3.5% per year growth in total payroll) over a closed period of 30 years (26 years remaining). The payment for a given year is expressed as a percentage of projected active member payroll for that year. This is the Amortization Rate.
- Amortizations of future gains and losses may be tracked individually and amortized over different periods.

The sum of the Normal Cost Rate and the Amortization Rate is the total City Contribution Rate. The City's actuarial cost is determined by multiplying the active payroll by the City Contribution Rate.

Actuarial Value of Plan Assets

There are currently no assets specifically set aside into a separate trust in order to pay for retiree healthcare benefits. Therefore, in accordance with the GASB Statements, the Market Value of Assets and the Actuarial Value of Assets are each equal to $0.

Changes in Methods since the Prior Valuation

A technical change was made to the Actuarial Cost Method, moving to the traditional Entry Age To Final Decrement methodology. The impact of this change was a slightly lower AAL and higher Normal Cost.

Actuarial Assumptions

Valuation Date

All assets and liabilities are computed as of January 1, 2012.

Basis for Demographic Assumptions

In general, the demographic assumptions predicting future member behavior have been taken from the most recently available pension valuations for the covered members.

Rate of Return

The annual rate of return on assets used to pay for benefits is assumed to be 4.00% (rate of return on general assets).

Inflation and Salaries

The cost of living as measured by the Consumer Price Index (CPI) will increase at the rate of 3.50% per year. Salaries are assumed to increase 3.5% per year due to wage inflation, plus an additional 1.5% due to merit increases.

Medical Inflation

Annual increases in the premium equivalents and expected claims for post-retirement benefits are assumed to be as follows:

Year	Prior Assumed Increase	Current Assumed Increase
2011	10.0%	N/A
2012	8.0%	10.0%
2013	7.0%	8.0%
2014	6.5%	9.0%
2015	6.0%	8.0%
2016	5.5%	6.5%
2017	5.0%	6.0%
2018	5.0%	5.5%
2019+	5.0%	5.0%

These rates are based on an analysis of the healthcare plan provisions, anticipated growth in local and national healthcare costs and an evaluation of the past claims experience of the City.

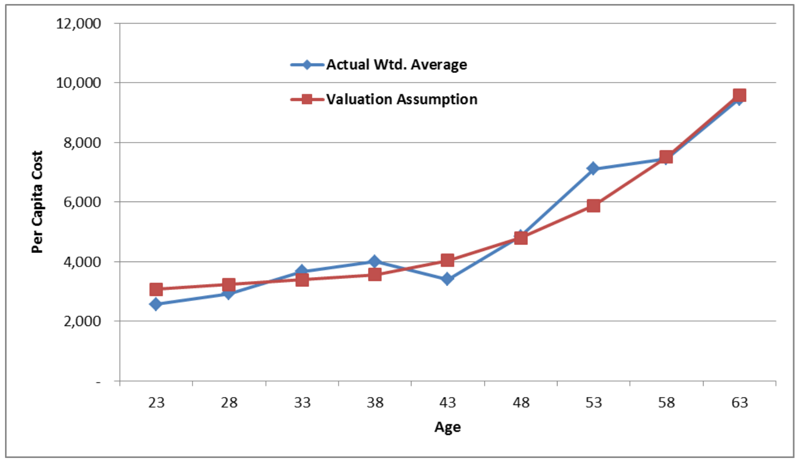
Mortality

Mortality among non-disabled members are given by the RP-2000 Blue Collar tables, projected to 2012 using Scale BB. Rates for disabled members are based on the RP 2000 Disabled Lives tables.

No provision has been made for mortality improvements beyond the valuation because we have no basis for such. The impact of future improvements will have a minor impact on this Plan, as benefits are not payable beyond age 65.

Age Based Claims Costs

Expected claims for this study are based on average claims from 2008 through 2011 for the City. Actual claims, trended to 2011, were fit to expected claims for the year 2011 based on valuation assumptions, as shown in the graph below.



Expected claims are shown in the following table:

Age	Expected 2010 Per Capita Claims Cost (Prior Valuation)	Expected 2012 Per Capita Claims Cost
40	$ 3,962	$ 3,989
45	4,706	4,738
50	5,589	5,627
55	7,065	7,113
60	9,017	9,078

Claims costs for two-party coverage are assumed to be 201% (prior ratio was 164%) of those shown above. Retirees with family coverage are assumed to have additional dependents and total family claims costs are assumed to be 248% (prior ratio was 193%) of those shown above. These ratios are based on the premium rates provided to us by the City.

Service Retirement

Rates of retirement are based on the age and service of the member, and vary by group. Police officers are assumed to retire upon earning 20 years of service (must be at least age 50 if hired on or after 1/1/2009). Fire members are assumed to retire upon attaining age 50 with 20 years of service. O & E members are assumed to retire at the later of age 60 or 12 years of service.

Rates for other members are the following:

Age	15+ Service
55 – 59	0.10
60 – 61	0.10
62	0.30
63 – 64	0.20
65	0.35
66 – 69	0.15
70+	1.00

For members in PMRS, rates are assumed to be 10% higher when first eligible at ages 60-62, and 5% higher when first eligible at any other age.

Disability

Rates of disability are based on the age of the Covered Employee. Representative rates are as follows:

Age	Police/Fire Male	Police/Fire Female	O&E Male	O&E Female	All Others
25	0.0040	0.0060	.0020	.0030	.0003
30	0.0040	0.0060	.0020	.0030	.0005
35	0.0055	0.0080	.0028	.0040	.0006
40	0.0070	0.0100	.0035	.0050	.0010
45	0.0120	0.0180	.0060	.0090	.0014
50	0.0180	0.0260	.0090	.0130	.0027

Termination

Rates of termination are based on the gender and age of the member, and vary by group. Representative rates are as follows:

Age	Police/Fire Male	Police/Fire Female	O&E
25	.050	.075	.054
30	.038	.058	.049
35	.027	.042	.046
40	.015	.025	.040
45	.010	.017	.036
50	.005	.008	.022
55+	.000	.000	.000

Rates of termination for all other employees are based on years of service. Representative rates are as follows:

Years of Service	Male	Female
1	.12	.15
2	.10	.13
3	.09	.11
4	.06	.09
5	.06	.08
10+	.02	.04

No terminations are assumed after eligibility for retirement.

Participation / Family Composition

For future retirees, male Plan beneficiaries are assumed to be 2 years older than their spouses. Participation rates and assumed coverage levels were developed based on an analysis of healthcare elections among City retirees.

90% of active Police members are assumed to elect retiree coverage for the benefits described above. This rate is assumed to be 65% for Fire members, and 75% for all other members.

90% of active Police members and 60% of all other members are assumed to have two-party coverage upon retiring. Future Police retirees expected to retire before age 50 are assumed to have family coverage until age 50.

Opt-In Rates	Based on our analysis of retiree opt-in's, one-half of currently retired Police and Fire members between the ages of 53 and 57, and without coverage, are assumed to opt-in and maintain coverage with the City until age 65. Those without coverage over age 57 are assumed to remain without coverage.

Changes in Assumptions since the Prior Valuation

Since the last valuation, changes were made to expected medical inflation and age related claims experience, as shown above.

Two other assumption changes were made since the prior valuation. The current assumptions are reflected in the descriptions above.

1. Mortality – We are now using an updated mortality table (RP 2000 Blue Collar projected to 2012) for all participants, rather than using the separate pension assumptions for each employee group.

2. Retirement – Based on the age at retirement of the current Fire Fighter retirees, we revised our assumed rates to assume that all retire at age 50 with 20 years of service.

Section 2:

Actuarial Computations

2.1: Computation of Annual Required Contribution (ARC): Pay-as-you-go

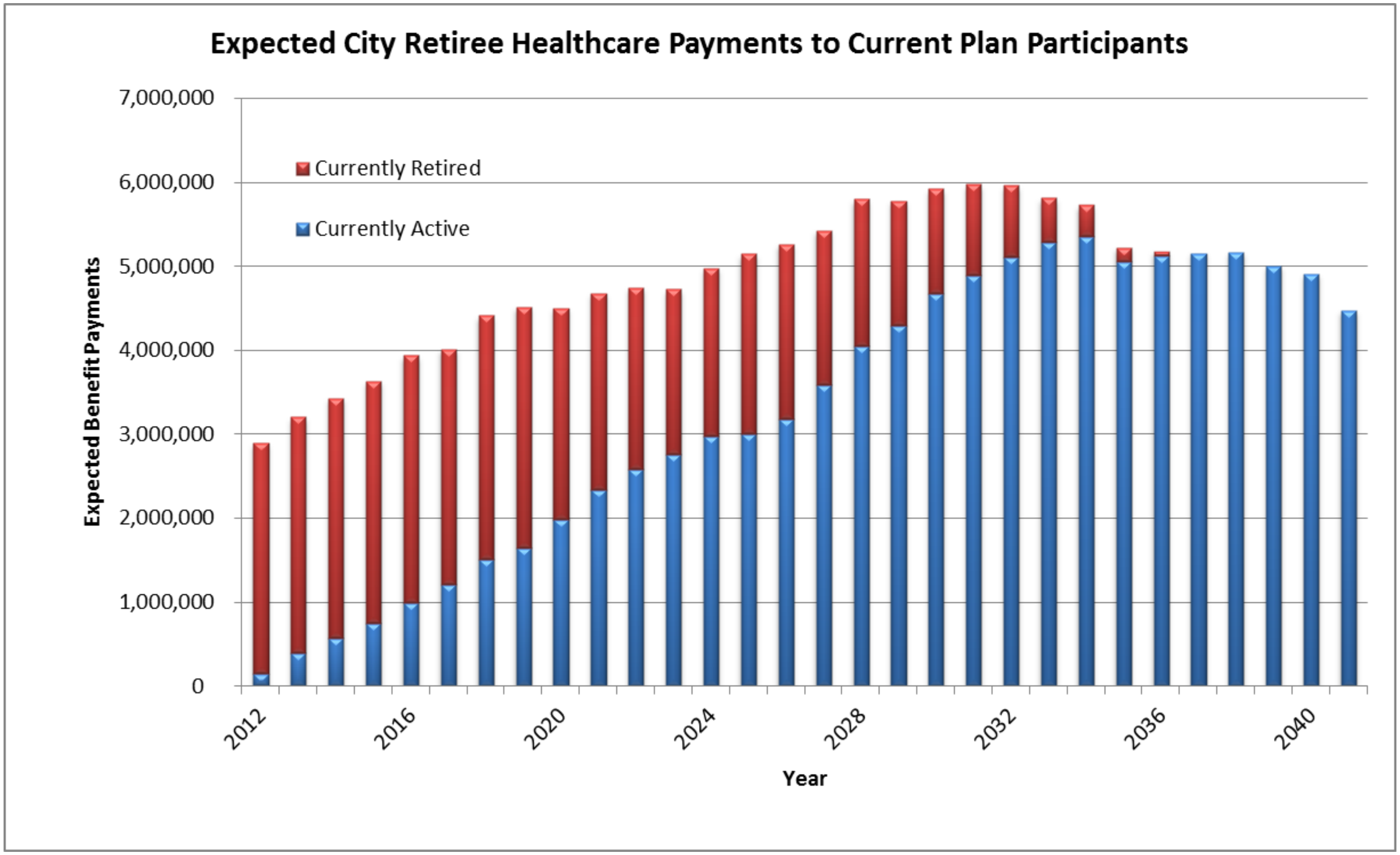
		1/1/2010	1/1/2012
	Discount Rate	4.00%	4.00%
(1)	Fully Projected Liability		
	Active Members	45,103,890	51,942,720
	Inactive Members	25,162,367	32,462,453
	Total Active and Inactive	70,266,257	84,405,173
(2)	Actuarial Accrued Liabilities		
	Active Members	25,063,172	28,983,618
	Inactive Members	25,162,367	32,462,453
	Total Accrued Liability	50,225,539	61,446,071
(3)	Covered Payroll	47,201,802	45,638,117
(4)	Actuarial Value of Plan Assets	0	0
(5)	Unfunded Actuarial Liability: (2) – (4)	50,225,539	61,446,071
(6)	Amortization of Unfunded Liability: (5) ÷ Amort Factor	1,912,903	2,508,416
(7)	(6) ÷ Covered Payroll	4.06%	5.49%
(8)	Normal Cost	1,847,510	2,155,454
(9)	(8) ÷ Covered Payroll	3.91%	4.72%
(10)	**Total Cost (% of Pay)**	**7.97%**	**10.21%**
(11)	**ARC for Fiscal Year**	**$ 3,760,413**	**$ 4,663,870**

2.2: Allocation of Pay-as-You-Go Annual Required Contribution (ARC) to Groups

	Fire	Police	All Others	Total
Fully Projected Liability	14,687,771	49,801,683	19,915,719	84,405,173
Actuarial Accrued Liability	10,559,295	36,461,756	14,425,019	61,446,070
Actuarial Value of Plan Assets	0	0	0	0
Unfunded Actuarial Liability	10,559,295	36,461,756	14,425,019	61,446,070
Amortization of Unfunded Liability	431,063	1,488,480	588,873	2,508,416
Normal Cost	346,081	1,393,189	416,184	2,155,454
Covered Payroll	6,326,210	13,248,814	26,063,093	45,638,117
Total Cost (% of Payroll)	**12.28%**	**21.75%**	**3.85%**	**10.21%**
Fiscal Year ARC	**$ 777,144**	**$ 2,881,688**	**$ 1,005,057**	**$ 4,663,870**

2.3: Projection of Estimated Post-Retirement Benefits

The following projections are based on the current covered population; any benefits expected to be paid to future new entrants are not included. The benefit payment projections are shown both with and without the value of the implicit subsidies assumed to be paid on behalf of the retirees. All assumptions are the same as used for the actuarial valuation as of January 1, 2012.



Section 3:

Disclosure Information

Schedules of Funding Status and Employer Contributions Required Under GASB Statement No. 45

GASB Statements No. 43 and 45 require the preparation of schedules of funding status and employer contributions, as well as the disclosure of plan provisions, actuarial assumptions, and other information.

The following exhibits are based on a pay-as-you-go scenario, with the employer contribution amount set equal to the net employer retiree cost for the current year.

Annual OPEB Cost, Contribution, and Changes in Net OPEB Obligation

	FY2010	FY2011	FY2012
Net OPEB Obligation – Beginning of Year	$ 3,918,257	$ 5,476,295	$ 6,772,083
Annual Required Contribution	3,760,413	3,892,027	4,663,870
Interest on Net OPEB Obligation	156,730	219,052	270,883
Adjustment to Annual Required Contribution	(235,146)	(335,360)	(423,711)
Annual OPEB cost (expense)	$ 3,681,997	$ 3,775,719	$ 4,511,041
Contributions Made (estimated*)	(2,123,959)	(2,479,931)	(2,886,869)
Increase in Net OPEB Obligation	$ 1,558,038	$ 1,295,788	$ 1,624,172
Net OPEB Obligation – End of Year	$ 5,476,295	$ 6,772,083	$ 8,396,255

* Actual contributions should be = total claims paid on behalf of retirees, less contributions from retirees.

Funded Status of the Plan

Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Plan Assets (AVA)	Unfunded AAL (UAAL)	Funded Ratio (AVA / AAL)	Covered Payroll (Active Plan Members)	UAAL as a Percentage of Covered Payroll
1/1/2009	$53,394,629	$0	$53,394,629	0.00%	$47,322,686	112%
1/1/2010	$50,225,539	$0	$50,225,539	0.00%	$47,201,802	106%
1/1/2012	$61,446,071	$0	$61,446,071	0.00%	$45,638,245	135%

Summary of Information

Valuation Date:	January 1, 2012
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level percentage of pay
Remaining Amortization Period:	26 Years
Asset Valuation Method:	N/A
Investment Rate of Return:	4.00%
Projected Salary Increases:	3.5% per year due to inflation, plus 1.5% due to merit
Projected Post-Retirement Benefit Cost Increases:	Annual increases in the premium equivalents and expected claims for post-retirement benefits are assumed to be as follows:

Year	Assumed Increase
2012	10.0%
2013	8.0%
2014	9.0%
2015	8.0%
2016	6.5%
2017	6.0%
2018	5.5%
2019+	5.0%

Appendix:

Alternate Scenarios

Healthcare Inflation

Unlike pension plans, which have a relatively predictable pattern of benefits, post-retirement healthcare benefits are much more difficult – if not impossible – to forecast accurately. Pension benefits are based on service and salary, which can be reasonably anticipated. Post-retirement medical benefits are much more variable, as they depend heavily on medical inflation. Healthcare inflation is likely to be the most important determinant of the City's OPEB cost over the long term.

Table A-1 below demonstrates the impact of medical inflation on costs, showing liabilities and costs under three scenarios. The baseline pre-funding scenario applies the valuation assumption of initial annual medical inflation of 10% and an ultimate growth rate of 5%. The alternate scenarios assume medical costs increase at rates 1% higher and 1% lower per year than valuation assumptions. In each case, a discount rate of 4.0% (pay-as-you-go scenario) and the Entry Age Normal cost method were used.

Table A-1: Summary of Liabilities and Cost (ARC) Under Various Medical Inflation Scenarios (Pay-as-you-go)

($ millions)	Valuation Assumptions	Increased Medical Inflation	Decreased Medical Inflation
Initial and Ultimate Medical Inflation	10%/5%	11%/6%	9%/4%
Actuarial Accrued Liability	61.4	67.7	55.3
Normal Cost	2.2	2.7	1.9
Total ARC	$ 4.7	$ 5.5	$ 4.1
ARC % of Pay	10.21%	11.80%	8.97%

Funding Policy and Implications

The decision to pre-fund post-retirement benefits has a large impact on the determination of the OPEB liabilities and costs. To demonstrate the effects of pre-funding benefits, we have determined the City's cost for Fiscal Year 2012 based on the following scenarios:

1. Full pre-funding of benefits – This implies that the City will consistently contribute an amount equal to the Annual Required Contribution (ARC) as defined by GASB 45, beginning in 2012
2. Continuing pay-as-you-go funding – This entails no pre-funding, and that all future benefits will be paid from the City's general assets.

GASB Statement 43 contains requirements pertaining to the legal structure of a trust fund when determining whether assets can be considered to be accumulated for the purposes of pre-funding the OPEB benefits, specifically:

- Contributions to the plan are irrevocable
- Plan assets are dedicated to providing benefits to their retirees and their beneficiaries in accordance with the terms of the plan
- Plan assets are legally protected from creditors of the employer or plan administrator

The City must satisfy these requirements if it wishes to use fund assets to offset the retiree healthcare liabilities for GASB purposes.

Annual Required Contribution (ARC): The amount of money that should be accounted for during the year to cover both the value of benefits accrued by active workers during the year (Normal Cost) and the portion of the unfunded liability that is being paid that year.

For an unfunded plan (i.e. pay-as-you-go), the City's expected rate of return on general funds will be required. For this valuation, a discount rate of 4.0% was used for the pay-as-you-go calculations, reflecting the expected return on the short-term securities commonly used in the general fund. If an alternate partial funding policy is developed, additional ARC calculations will need to be completed.

Table A-2 below shows the determination of liabilities and the ARC under two funding policies. The discount rate is based on the City's expected return on general assets or the expected return from a (pension type) trust fund.

The Entry Age Normal actuarial cost method with a 26-year level percentage of payroll amortization of the unfunded accrued liability has been used to determine the liabilities and costs in all cases. Additional information on the Entry Age Normal method is provided in Section 1.3 herein.

Table A-2: Summary of Liabilities and Cost (ARC) Under Various Funding Policies

($ millions)	Full Pre-Funding	Pay-As-You-Go
Discount Rate	7.50%	4.00%
Fully Projected Liability	$ 56.5	$ 85.3
Entry Age Accrued Liability	47.3	61.4
Assets	0	0
Unfunded Accrued Liability	47.3	61.4
Total Cost (ARC as a percentage of pay)	8.50%	10.21%
Total Cost (ARC) for FY 2012	$ 3.9	$ 4.7
Actual Funding Policy Contribution	3.9	2.9