



# Preparing to Implement the New OPEB Standards: GASB 74 and 75

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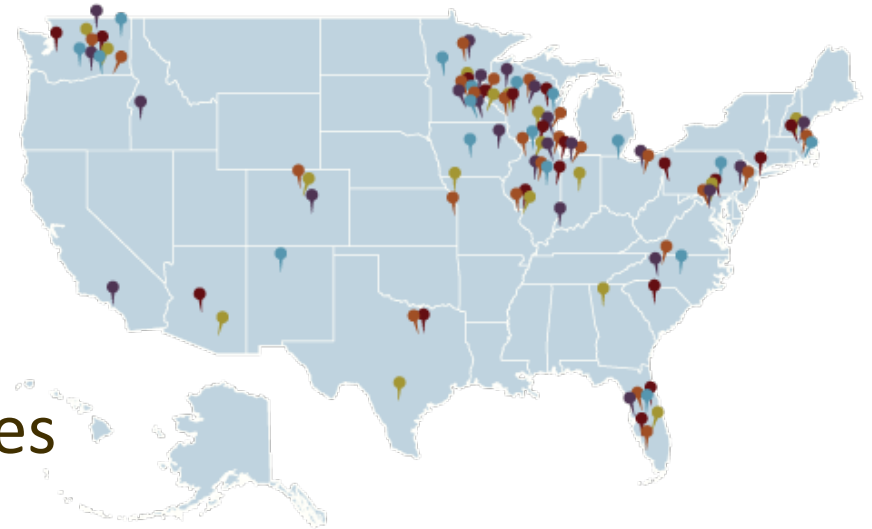
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# Speaker Introductions

- **Christine O’Neal, ASA, EA, MAAA**  
Consulting Actuary, Foster & Foster
- **Andrew Laflin, CPA**  
Principal, CliftonLarsonAllen, LLP



# Learning Objectives

- At the end of this session, you will be able to:
  - Describe the updates to the new GASB 74 and 75 statements
  - Determine what benefits must be stated on balance sheets
  - Identify the differences between requirements of GASB 67/68 and GASB 74/75
  - Leave with a clear understanding of how to prepare and put strategies in place for the upcoming implementation.



# GASB 74 and 75



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Christine O'Neal, ASA, EA, MAAA, Foster & Foster

# GASB 74 and 75 for OPEBS

- Financial Reporting for Postemployment Benefits Other Than Pension Plans (“Plan Accounting”)
  - Replaces GASB 43
  
- Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (“Employer Accounting”)
  - Replaces GASB 45



# Comparisons to GASB 43 and 45 Accounting

- Discount Rate: change to GASB 67 and 68 method
- Cost Method: no longer a choice, must use entry age normal
- More rapid recognition of actuarial gains and losses and changes in actuarial assumptions for OPEB expense
- Immediate recognition of plan changes for OPEB expense
- No longer have three year valuation option for very small plans - now a two year requirement. Includes Alternative Measurement Method for plans with fewer than 100 plan members
- Additional sensitivity measurements requires for both discount rate sensitivity and trend rate sensitivity

# Why the change?

- Postemployment benefit accounting to be consistent for both pension and OPEB
  - Relevant and Comparable
  - Useful
  - Transparent

# New Terminology

<b>GASB45</b>	<b>GASB75</b>
Normal Cost	Service Cost
Annual Required Contribution (ARC) / Annual OPEB Cost	OPEB Expense
Net OPEB Liability	N/A
Accrued Liability	Total OPEB Liability (TOL)
Assets	Fiduciary Net Position
Unfunded Accrued Liability	Net OPEB Liability (NOL)

# Plan Accounting- Similarities to GASB 67

- Cost Method: Entry Age Normal, level percentage of compensation
  
- Discount rate:
  - Long-term expected rate of return on plan investments if projected to be sufficient to make projected benefit payments
  
  - Index rate for 20-year tax exempt municipal bond with AA/Aa or higher rating to extent projected benefit payments not covered by plan investments

# Plan Accounting-Similarities to GASB 67

(continued)

- Measurement date is plan's fiscal year end
- Liabilities can be rolled forward from a valuation date within 24 months of fiscal year end
- Professional judgment to reflect significant changes that have occurred since last valuation
- Plan assets must be stated as of measurement date- no roll forward

# GASB 75

## Employer Accounting Issues

- Net OPEB Liability goes on employer's balance sheet- no longer just a footnote (like GASB 68)
- No more ARC- replaced by OPEB expense calculated similar to pension expense under GASB 68
- Deferred inflows and deferred outflows similar to GASB 68
- Market value of assets used, no smoothing
  - Five year amortization of gains/losses
- Discount rate determined under crossover test likely to be less than current rate

# GASB 75

## Balance Sheet Impact

- May not be as significant as GASB 68 impact of recording the Unfunded Actuarial Accrued Liability recorded on to balance sheet
  - Usually under GASB 27 no balance sheet liability, sometimes an asset
- Existing Net OPEB Obligation is the accumulation of unfunded expense, may be already a significant percentage of Unfunded Actuarial Accrued Liability
- However, the GASB 75 Net OPEB Liability that will be recorded may be greater than current GASB 45 Unfunded Actuarial Accrued Liability due to a required lower discount rate than currently used

# Effective Dates

- GASB Board decided to move the effective dates back 6 months
- Plan: Plan years beginning after June 15, 2016
  - For most Florida plans this will be for plan year beginning October 1, 2016
- Employer: Fiscal years beginning after June 15, 2017
  - For most Florida plans this will be for fiscal year beginning October 1, 2017
- Earlier application is encouraged



# GASB 74/ 75 Issues

## **Case Study of Sunshine City**

### Early Adopter

- Sponsor adopts GASB 74 October 1, 2015 for Plan accounting
- GASB 45 used for the Sponsor's fiscal year beginning October 1, 2015

# GASB 74/75 Issues

## Issue Number One: Development of GASB 74 Discount Rate

- Long-term expected rate of return requires target asset allocation and long-term real rates of return by asset class
- Determination of future level of Sponsor Contributions to Trust
- Determination of rate for 20- year tax-exempt general obligation municipal bond with an average rating of AA/Aa or higher
- Projection of benefit payments for 50-75 years for current retirees and emerging retirees

# GASB 74/ 75 Issues

## Issue Number One: Sunshine City's Results

- 7.70% Long-term expected rate of return based upon asset allocation
- 55% of the sum of Normal Cost and 30 Year Funding Requirement (percentage derived as average of prior 2 years of funding)
- 3.57% as September 30, 2016 rate for 20- year tax – exempt general obligation municipal bond with an average rating of AA/Aa or higher
- Assets depleted after 25 years, single discount rate of return was 4.60%

# GASB 74/ 75 Issues

## Issue Number Two: GASB 45 Discount Rate

- Rate used in prior years was 5.50% based on partial funding of the trust
- GASB 45 definition of the discount rate for a partially funded plan is a “blended rate that reflects proportionate amounts of plan and Sponsor assets to be used”
- Reasonable to assume that the 5.50% can be used to calculate the OPEB expense under GASB 45 for the 2015-2016 fiscal year?
- Sunshine City’s auditor determined the 4.60% rate calculated under the GASB 74 requirements would need to be used for the same time period under GASB 45

# GASB 74/ 75 Issues

## GASB 75 Results Versus GASB 45

- GASB 45:
  - Actuarial Accrued Liability at 10/1/2015: \$220 million at 5.5%
  - Unfunded Actuarial Accrued Liability: \$186 million
  - Net OPEB Obligation \$97 million as of 9/30/2015 Expense \$15.1 at 5.5%
- GASB 75:
  - Actuarial Accrued Liability at 10/1/2015: \$255 million at 4.6%
  - Net OPEB Liability \$220 million
  - Expense \$16.2 million
- Balance Sheet impact at 9/30/2015:
  - \$220 million-\$97 million = \$123 million



# GASB 75 – Required Note Disclosures and RSI

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# OPEB Plan Description

- GASB 45: Name of the plan, identification of the public employee retirement system (PERS) or other entity that administers the plan, and identification of the plan as a single-employer, agent multiple-employer, or cost-sharing multiple-employer defined benefit OPEB plan.
- GASB 75: Same as above



# OPEB Plan Description

- GASB 45: Brief description of the types of benefits and the authority under which benefit provisions are established or may be amended
- GASB 75: Same as above; also includes disclosure of number of employees covered by benefit terms
  - Inactive employees currently receiving benefit payments
  - Inactive employees entitled to but not yet receiving benefit payments
  - Active employees





# OPEB Plan Description

- GASB 45: Whether the OPEB plan issues a stand-alone financial report or is included in the report of a PERS or another entity and, if so, how to obtain a report
- GASB 75: Same as above



# OPEB Plan Description

- GASB 45: Authority under which obligations to contribute are established; required contribution rate(s) of plan members; contribution rates (in dollars or as percentage of covered payroll)
- GASB 75: Same as above...plus disclose the amount of contributions recognized by the OPEB plan from the employer during the reporting period
  - GASB 45 also required disclosure of annual OPEB cost, % of annual OPEB cost contributed that year, and net OPEB obligation at end of year for CY and PY1 and PY2



# Assumptions and Other Inputs

- GASB 45: Information about the funded status of the plan as of the most recent valuation date, including the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the unfunded actuarial liability (or funding excess) to annual covered payroll.
- GASB 75: Not applicable



# Assumptions and Other Inputs

- GASB 45: Identification of the actuarial methods and significant assumptions used to determine the ARC for the current year
  - Actuarial cost method
  - Method used to determine actuarial valuation of assets
  - Assumptions with respect to the inflation rate, investment return, postretirement benefit increases (if applicable), projected salary increases (if relevant to determination of level of benefits), and healthcare cost trend rate
  - Amortization method (level dollar or level % of projected payroll) and amortization period and whether open/closed



# Assumptions and Other Inputs

- GASB 75: Significant assumptions and other inputs used to measure the total OPEB liability, including:
  - Inflation
  - Healthcare cost trend rates
  - Salary changes
  - Ad hoc postemployment benefit changes (including ad hoc COLAs)



# Additional Disclosures on Assumptions/Inputs

- GASB 45: Disclosure that the required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits
- GASB 75: There is no schedule of funding progress, so this disclosure is no longer applicable



# Additional Disclosures on Assumptions/Inputs

- GASB 45: Disclosure that actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future
- GASB 75: The source of the mortality assumptions
  - Example: “Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA”



# Additional Disclosures on Assumptions/Inputs

- GASB 45: Disclosure that calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point.
- GASB 75: The fact that projections of the sharing of benefit-related costs are based on an established pattern of practice





# Additional Disclosures on Assumptions/Inputs

- GASB 45: Disclosure that actuarial calculations reflect a long-term perspective. In addition, if applicable, disclosure that, consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.
- GASB 75: The dates of experience studies on which significant assumptions are based



# Additional Disclosures on Assumptions/Inputs

- GASB 75: Measure of net OPEB liability calculated using a healthcare cost trend rate that is 1 percent higher and 1 percent lower than the assumed health care cost trend rate



# Additional Disclosures on Assumptions/Inputs

- GASB 75: Discount rate disclosures
  - Discount rate applied in the measurement of the total OPEB liability and change in discount rate since prior measurement date, if any
  - Assumptions made about projected cash flows into and out of the OPEB plan, such as ER/EE contributions
  - The long-term expected rate of return on OPEB plan investments and a brief description of how it was determined, including significant methods and assumptions used for that purpose



# Additional Disclosures on Assumptions/Inputs

- GASB 75: Discount rate disclosures, continued
  - If the discount rate incorporates a municipal bond rate, the municipal bond rate used and the source of that rate
  - The periods of projected benefit payments to which the long-term expected rate of return and, if used, the municipal bond rate are applied in determining the discount rate
  - The assumed asset allocation of the OPEB plan's portfolio, the long-term expected real rate of return for each major asset class, and whether the expected rates of return are presented as arithmetic or geometric means, if not otherwise disclosed



# Additional Disclosures on Assumptions/Inputs

- GASB 75: Discount rate disclosures, continued
  - Measures of the net OPEB liability calculated using a discount rate that is 1 percent higher and 1 percent lower than current discount rate



# Assumptions and Inputs - Illustration

## *Actuarial Assumptions:*

The Total OPEB Liability was determined by an actuarial valuation as of October 1, 2015 using the following actuarial assumptions:

Inflation	3.00%
Salary Increases	3.80%
Discount Rate	4.60%
Investment Rate of Return	7.70%

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The date of the most recent actuarial experience study for which significant assumptions are based is not available.

The Long-Term Expected Rate of Return on OPEB Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expenses and inflation) are developed for each major asset class.

These ranges are combined to produce the Long-Term Expected Rate of Return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
US Equity	40%	7.50%
International Equity	10%	8.50%
Real Estate	5%	4.50%
US Fixed Income	45%	2.50%
Total	100%	

## **Discount Rate:**

The projection of cash flows used to determine the Discount Rate assumed that current Plan Member and Sponsor contributions will be made at the current contribution rate. Based on those assumptions, the OPEB Plan's Fiduciary Net Position was projected to provide future benefit payments for 25 years.

These payments were discounted using a discount rate of 7.70%. Future benefits payments beyond 25 years were discounted using a high quality municipal bond rate of 3.57%.

The high quality municipal bond rate was based on the week closest to, but not later than, the measurement date of the Bond Buyer 20-Bond Index as published by the Federal Reserve.

The single equivalent discount rate was 4.60%.



# Changes in Net OPEB Liability

- GASB 45: For the current year, annual OPEB cost and the dollar amount of contributions made. If the employer has a net OPEB obligation, also disclose the components of annual OPEB cost (ARC, interest on the net OPEB obligation, and adjustment to the ARC), the increase or decrease in the net OPEB obligation, and the net OPEB obligation at the end of the year



# Changes in Net OPEB Liability

- GASB 75: Schedule of changes in net OPEB liability to include the following:
  - Beginning balances of total OPEB liability, OPEB plan's fiduciary net position, and net OPEB liability
  - The effects of service cost, interest on total OPEB liability, changes of benefit terms, differences between expected and actual experience in measurement of total OPEB liability, changes of assumptions or other inputs, contributions from employer/employees, OPEB plan net investment income, benefit payments, admin expenses
  - Ending balances of total OPEB liability, OPEB plan's fiduciary net position, and net OPEB liability





# Changes in Net OPEB Liability - Illustration

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances at September 30, 2014	\$ 244,079,000	\$ 33,549,000	\$ 210,530,000
Changes for the Year:			
Service Cost	6,900,000	-	6,900,000
Interest	11,475,000	-	11,475,000
Differences between Expected and Actual Experience	-	-	-
Changes of assumptions	-	-	-
Changes of benefit terms	-	-	-
Contributions - Employer	-	8,100,000	(8,100,000)
Net Investment Income	-	820,000	(820,000)
Benefit Payments	(7,500,000)	(7,500,000)	-
Administrative Expense	-	(15,000)	15,000
Net Changes	10,875,000	1,405,000	9,470,000
Balances at September 30, 2015	\$ 254,954,000	\$ 34,954,000	\$ 220,000,000



## Other Required Disclosures – GASB 75

- The measurement date of the net OPEB liability; the date of the actuarial valuation or alternative measurement method calculation on which the total OPEB liability is based; and, if applicable, the fact that update procedures were used to roll forward the total OPEB liability to the measurement date.
- Example: “The [Name of Government]’s total OPEB liability of \$X,XXX,XXX was measured as of [measurement date] and was determined by an actuarial valuation as of that date.”



## Other Required Disclosures – GASB 75

- A brief description of changes of assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement date
- A brief description of changes of benefit terms that affected measurement of the total OPEB liability since the prior measurement date.
- Disclosures relating to the amount of benefit payments in the measurement period attributable to the purchase of allocated insurance contracts (if applicable)



## Other Required Disclosures – GASB 75

- A brief description of the nature of changes between the measurement date of the net OPEB liability and the employer's reporting date that are expected to have a significant effect on the net OPEB liability, and the amount of the expected resultant change in the net OPEB liability, if known.



# OPEB Expense and Deferred Inflows/Outflows

## – GASB 75

- Disclose the amount of OPEB expense recognized by the employer in the reporting period
- Disclose balances of deferred outflows & inflows of resources relating to the following:
  - Differences between expected and actual experience in the measurement of the total OPEB liability
  - Changes of assumptions or other inputs
  - Net difference between projected and actual earnings on OPEB plan investments
  - The employer's contributions to the OPEB plan subsequent to the measurement date of the net OPEB liability (if applicable)



# OPEB Expense and Deferred Inflows/Outflows

## – GASB 75

- Present a schedule for each of the subsequent five years and in aggregate thereafter, the net amount of employer's balances of deferred outflows and inflows of resources that will be recognized in employer's OPEB expense



## RSI Schedules – GASB 45 vs 75

- GASB 45: Information about funding progress of the plan (actuarial valuation of assets, actuarial accrued liability, total unfunded actuarial liability, etc.) for current valuation and most recent two preceding valuations
- GASB 75: Two schedules now required within required supplementary information instead of just one; need to provide 10 years of info instead of three most recent actuarial valuations



# RSI Schedules – GASB 75

- 10 year schedule of changes in the net OPEB liability
  - Also include OPEB plan's fiduciary net position as a percentage of the total OPEB liability; covered employee payroll; net OPEB liability as a percentage of covered employee payroll
- Measured as of measurement date





# RSI Schedule – Change in Net OPEB Liability

	<u>09/30/2015</u>
Total OPEB Liability	
Service Cost	6,900,000
Interest	11,475,000
Changes of benefit terms	-
Differences between Expected and Actual Experience	-
Changes of assumptions	-
Benefit Payments	<u>(7,500,000)</u>
Net Change in Total OPEB Liability	10,875,000
Total OPEB Liability - Beginning	244,079,000
Total OPEB Liability - Ending (a)	<u>\$ 254,954,000</u>
Plan Fiduciary Net Position	
Contributions - Employer	8,100,000
Net Investment Income	820,000
Benefit Payments	(7,500,000)
Administrative Expense	<u>(15,000)</u>
Net Change in Plan Fiduciary Net Position	1,405,000
Plan Fiduciary Net Position - Beginning	33,549,000
Plan Fiduciary Net Position - Ending (b)	<u>\$ 34,954,000</u>
Sponsor's Net OPEB Liability - Ending (a) - (b)	<u>\$ 220,000,000</u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	13.71%
Covered Employee Payroll	\$ 81,000,000
Sponsor's Net OPEB Liability as a percentage of Covered Employee Payroll	271.60%



# RSI Schedules – GASB 75

- 10 year schedule of contributions (actuarially determined and/or contributions that are statutorily or contractually established)
  - Actuarially or contractually determined amount
  - Actual contributions made
  - Difference
  - Covered employee payroll
  - Contribution as percentage of covered employee payroll
- Measured as of employer's most recent fiscal year-end



# RSI Schedule – Contributions

	<u>09/30/2015</u>
<b>Actuarially Determined Contribution</b>	<b>14,000,000</b>
<b>Contributions in relation to the Actuarially Determined Contributions</b>	<b>8,100,000</b>
<b>Contribution Deficiency (Excess)</b>	<b>\$ 5,900,000</b>
<b>Covered Employee Payroll</b>	<b>\$ 81,000,000</b>
<b>Contributions as a percentage of Covered Employee Payroll</b>	<b>10.00%</b>



# RSI Schedule of Contributions - Notes

- Significant methods and assumptions used in calculating the actuarially determined contributions, if any, should be presented as notes to the schedule
- Information should be presented about factors that significantly affect trends in the amounts reported (for example, changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions)
- Information about investment-related factors that significantly affect trends in the amounts reported should be limited to those factors over which the OPEB plan or the participating governments have influence (for example, changes in investment policies). Information about external, economic factors (for example, changes in market prices) should not be presented



# RSI Schedule – Notes to Contributions

## Notes to Schedule

**Valuation Date:** 10/01/2014  
Actuarially determined contribution rates are calculated as of October 1, prior to the fiscal year in which contributions are reported.

**Methods and assumptions used to determine contribution rates:**

**Actuarial Cost Method:** The entry age normal actuarial cost method was used for the October 1, 2014 valuation. Under this method, the actuarial present value of the projected benefits of each individual included in the October 1, 2014 valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age.

**Interest Rate Assumption:** Some assets have been accumulated under a retiree health insurance fund and the plan is partially funded. Therefore, based on the provisions of GASB No.45, an interest rate of 5.5% have been used in performing the actuarial valuation of October 1, 2014.

**Medical Trend Rate Assumption:** The medical trend rate assumption starts at 7.5% in 2016 and gradually declines to 5.0% by the year 2021 as follows:

Year	Medical Trend
2016	7.5%
2017	7.0%
2018	6.5%
2019	6.0%
2020	5.5%
2021 and later	5.0%

**Participation Rate:** 100% of current active employees assumed to participate in the retiree health insurance plan.

**Mortality Rates:** The RP-2000 Combined Mortality Table projected to 2014, was used for IMRF active employees and pensioners. The RP-2000 Mortality Table with Blue Collar Adjustment, projected to 2014, was used for active and retired police officers and firefighters. The RP-2000 Disabled Mortality Table, projected to 2014, was used for disabled police officers and firefighters.



# RSI Schedule – Notes to Contributions (cont.)

## Per Retiree Monthly Costs:

The percent increases in health care costs by age that are shown in Table 4 of the study *Aging Curves for Health Care Costs in Retirement*, by Jeffrey P. Petertil, published in the July 2005 issue of the *North American Actuarial Journal* are as follows:

Age Band	Representative One Year Aging Factor
50-54	3.3%
55-59	3.6%
60-64	4.2%
65-69	3.0%
70-74	2.5%
75-79	2.0%
80-84	1.0%
85-89	0.5%
90 and over	0.0%

Applying the above rates of increases in health care costs by age, the costs per retiree were developed by five-year age groups that were equivalent to the above average costs per participant. The costs per retiree by five-year age groups were developed so the total of the age-adjusted costs was equal to the total of the average costs.

Using the above approach and taking into account the number of participants in each plan, the following age adjusted total monthly total costs per retiree under the plan were developed, including the cost of dependent coverage:

Age Band	Age - Adjusted Total Monthly Cost
50-54	\$1,562.76
55-59	\$1,851.58
60-64	\$2,241.87
65-69	\$725.45
70-74	\$830.83
75-79	\$928.59
80-84	\$1,000.29
85 and over	\$1,038.35

## Termination Rates:

For IMRF employees higher rates of termination were used during the first 8 years of employment. The following is a sample of the termination rates that were used in the 2014 Valuation:

### Rate of Termination

Years of Service	IMRF Employees
0	0.1790
4	0.1158
7	0.0684

Age	IMRF		
	Employees	Police	Firefighters
25	0.0530	0.0750	0.0500
30	0.0410	0.0500	0.0250
35	0.3300	0.0300	0.0200
40	0.2700	0.0200	0.0100
45	0.2300	0.0200	0.0100
50	0.0200	0.0350	0.0100



# RSI Schedule – Notes to Contributions (cont.)

## Retirement Rates:

In the 2014 valuation, for police, rates of retirement for each age from 50 to 70 were used. For firefighters, rates of retirement for each age from 50 to 70 were used. For general employees, rates of retirement for each age from 55 to 70 were used. Higher rates are used for general employees with 35 or more years of service aged 55-59. The following is a sample of the retirement rates that were used:

Age	<u>Rate of Retirement</u>		
	IMRF Employees	Police	Firefighters
50		0.2000	0.1400
55	0.7250	0.2500	0.2000
60	0.1200	0.3300	0.2500
65	0.2500	0.5000	0.5000
70	1.0000	1.0000	1.0000

## Disability Rates:

For police and firefighters, rates of disability were used to estimate the probability of becoming disabled. The following is a sample of the disability rates that were used:

Age	<u>Rate of Disability</u>	
	Police	Firefighters
25	0.0005	0.0010
30	0.0022	0.0014
35	0.0026	0.0035
40	0.0040	0.0050
45	0.0065	0.0065
50	0.0095	0.1000
55	0.0130	0.0150

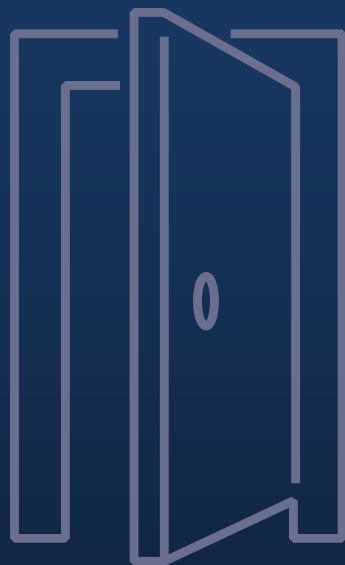




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