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October 10, 2011

Mr. Bernard Re
County Treasurer
Sussex County Administrative Center
One Spring Street
Newton, NJ 07860

Re: Homestead Other Post-employment Benefit (OPEB) Liabilities

Dear Bernie:

As requested, we have estimated the OPEB liabilities related to the Homestead's active employee group. We based our calculations on census information provided by your staff for the GASB 45 valuation as of January 1, 2010. As of that date, there were 106 employees in the Homestead census. With the exception of the items discussed below, the plan provisions, actuarial assumptions, healthcare claim information, and actuarial methodologies are the same as those stated in our GASB 45 valuation report as of January 1, 2010.

Our calculations differ from those in the aforementioned report in the following ways:

1. We have adjusted the liabilities for employees with less than 20 years of service by roughly estimating the amount of future retiree cost-sharing of premium. We assumed an average long-term cost-sharing rate of 16%. This estimated rate was based on a projection of the Homestead's active employee population's average salary (assuming 3% salary increases). Using this projected average salary, we then estimated the cost-sharing percentage based on the tables on the State's website. We estimate that this level of cost-sharing would be greater than the minimum cost-sharing level of 1.5% of projected salary.
2. We assumed that the impact of New Jersey's pension and health reform actions, including the cost-sharing mentioned above, would have an impact on future probabilities of retirement. We estimated the impact by dividing the valuation probabilities of retirement by 2 for ages under 65, and multiplying the valuation probability of retirement at age 65 by 2. In essence, this can be interpreted as an expectation that people will retire later under New Jersey's benefit provisions.
3. There is anecdotal evidence that employees of nursing homes terminate employment at a faster rate than the general workforce. We do not have direct evidence of this regarding the Homestead employees; however, we estimated the impact of increased employee terminations at the Homestead by increasing the probabilities of termination in the first three years of

permanent employment by 10% per year. This sensitivity analysis is shown as Scenario 2 below.

The estimated OPEB liabilities are as follows:

	Scenario 1: Valuation rates of termination	Scenario 2: Increased rates of termination
(1) Present value of benefits	$15,109,000	$14,918,000
(2) Normal Cost	$643,000	$624,000
(3) Accrued liability	$8,310,000	$8,296,000
(4) Amortization (30-year amortization of (3))	$328,000	$328,000
(5) Annual Required Contribution (ARC) = (2) + (4)	$971,000	$952,000

The amortization payments are based on a 30-year schedule, level percent of payroll assuming 3% salary increases.

We observe that there is very little difference between Scenarios 1 and 2. In examining the employee census, there are very few employees with less than three years of service at Homestead.

If you have any questions, or need anything else, please call me on 201-557-8408.

Sincerely,

Leslie H. Richmond, ASA, EA, MAAA
Principal

Cc: J. Eskilson
P. Bailey
S. Puri