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December 7, 2006

Ms. Jeanne Tate
Financial Reporting Manager
Town of Chapel Hill
405 Martin Luthur King Jr. Blvd.
Chapel Hill, NC 27514

**December 31, 2005 Actuarial Valuation of
the Health Care Plan of the Town of Chapel Hill**

Dear Ms. Tate:

Enclosed are the results of the December 31, 2005 Actuarial Valuation of the Health Care Plan of the Town of Chapel Hill. In preparing the valuation, the actuary relied on data provided by the employer and the Local Governmental Employees' Retirement System. While not verifying the data at source, the actuary performed tests for consistency and reasonability. The assumptions used by the actuary are in the aggregate reasonably related to the experience under the program and the reasonable expectations of anticipated experience under the program.

The valuation was based on an assumed interest rate of 4%. Schedule A summarizes the valuation results, including membership data, the valuation balance sheet and the actuarially determined contribution rates. Schedule C outlines the full set of actuarial assumptions and methods employed. Schedule D provides a summary of the benefit and contribution provisions taken into account.

The annual required contribution was determined in accordance with the accounting requirements under GASB Statement No. 43 and GASB Statement No. 45. We have presented the required GASB disclosure information in Schedule B.

If you have any questions about this information, please call us at 678.388.1700.

Respectfully submitted,

Todd B. Green
Senior Consultant

Alisa Bennett, EA, ACA, MAAA
Senior Actuary

TBG/AB:sh

Enclosure

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SCHEDULE A

THE HEALTH CARE PLAN OF THE TOWN OF CHAPEL HILL RESULTS OF DECEMBER 31, 2005 ACTUARIAL VALUATION

MEMBERSHIP		
<i>Active Members</i>		
<i>Law Enforcement Officers</i>		
Number		117
Annual Compensation	\$	5,185,428
<i>Firefighters</i>		
Number		72
Annual Compensation	\$	2,971,923
<i>General Employees</i>		
Number		458
Annual Compensation	\$	17,165,313
<i>Retired Members</i>		
Number		156

VALUATION BALANCE SHEET

Accrued Actuarial Liabilities

Present value of benefits (based on credited service to date) payable
in respect of:

(1) Present retired members and beneficiaries	\$	4,017,136
(2) Present active members		<u>41,363,564</u>
(3) Total accrued actuarial liabilities [(1)+(2)]	\$	45,380,700

Present and Prospective Assets

(4) Present assets	\$	0
(5) Present value of future accrued liability contributions (Unfunded accrued liability) [(3)-(4)]		<u>45,380,700</u>
(6) Total present and prospective assets	\$	45,380,700



SCHEDULE A
(continued)

ANNUAL REQUIRED CONTRIBUTION (ARC)
(for fiscal years ending June 30, 2007 and June 30, 2008)

	<i>Rate as % of Compensation</i>	<i>Annual Amount</i>
Normal Cost	15.48%	\$ 4,067,815
Accrued Liability	<u>5.98%</u>	<u>1,569,845</u>
Total	21.46%	\$ 5,637,660



SCHEDULE A
(continued)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at December 31, 2005. Additional information as of the latest actuarial valuation follows.

Valuation date	12/31/2005
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation method	Market Value of Assets
Actuarial assumptions:	
Investment Rate of Return*	4.00%
Medical cost trend rate	12.00% - 6.00%
Year of Ultimate trend rate	2010
*Includes inflation at	3.75%

The assumed investment rate of return reflects the fact that no assets are set aside within the Town of Chapel Hill that are legally held exclusively for retiree health benefits. If a trust or equivalent arrangement were set up for this purpose, the investment rate of return can be increased.



SCHEDULE B

THE HEALTH CARE PLAN OF THE TOWN OF CHAPEL HILL

**ACCOUNTING INFORMATION IN ACCORDANCE WITH
GOVERNMENTAL ACCOUNTING STANDARDS BOARD
STATEMENT NO. 43 AND 45**

Governmental Accounting Standards Board Statements 43 and 45 set forth certain items of required supplementary information to be disclosed in the financial statements of the Plan and the employer.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a) / c)</u>
12/31/2005	\$0	\$45,380,700	\$45,380,700	0.0%	\$25,322,664	179.2%



SCHEDULE C

**THE HEALTH CARE PLAN OF THE TOWN OF CHAPEL HILL
OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS**

INTEREST RATE: 4.00% per annum, compounded annually.

SEPARATION FROM SERVICE: Representative values of the annual rates of separation are as follows:

General Employees

ANNUAL RATE OF											
Age	0-4 Yrs Svc		Withdrawal 5-9 Yrs Svc		10+ Yrs Svc		Death*		Disability		Service Retirement**
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	
20	19.5%	19.5%	8.0%	10.0%	4.0%	3.5%	0.048%	0.028%	0.040%	0.050%	
25	16.0	16.0	6.5	8.0	4.0	3.5	0.062	0.029	0.040	0.050	
30	14.5	14.5	5.5	7.0	3.5	4.0	0.078	0.033	0.100	0.090	
35	13.0	13.0	5.5	7.0	3.0	3.5	0.085	0.045	0.300	0.150	
40	12.0	12.0	5.5	6.0	2.5	3.5	0.100	0.065	0.500	0.300	
45	12.0	12.0	5.5	6.0	2.5	3.0	0.146	0.092	0.800	0.400	
50	11.0	11.0	4.0	5.5	2.5	3.0	0.233	0.131	1.000	0.800	25%
55	9.0	9.0	4.0	5.5	2.5	3.0	0.398	0.208	2.000	1.000	25
60	9.0	9.0					0.709	0.386	2.400	1.300	8
65	9.0	9.0					1.294	0.762			30
70							2.173	1.271			20
75							3.405	2.038			100

*Scale AA mortality improvement factors are applied.

**An additional 15% are assumed to retire when first eligible for unreduced service retirement.



SCHEDULE C
(continued)

Law Enforcement Officers

ANNUAL RATE OF							
Age	Withdrawal			Death*		Disability	Service Retirement**
	0-4 Yrs Svc	5-9 Yrs Svc	10+ Yrs Svc	Male	Female		
20	9.0%	4.0%	2.5%	0.048%	0.028%	0.217%	
25	9.0	4.0	2.5	0.062	0.029	0.247	
30	10.0	5.0	2.5	0.078	0.033	0.323	
35	10.0	6.0	2.5	0.085	0.045	0.450	
40	9.0	6.0	2.5	0.100	0.065	0.592	
45	9.0	5.0	2.0	0.146	0.092	0.825	
50	9.0	4.0	2.0	0.233	0.131	1.320	30%
55				0.398	0.208	2.303	15
60				0.709	0.386	4.507	20
65				1.294	0.762		40
70				2.173	1.271		30
75				3.405	2.038		100

*Scale AA mortality improvement factors are applied.

**An additional 35% are assumed to retire when first eligible for unreduced service retirement.

Firefighters

ANNUAL RATE OF							
Age	Withdrawal			Death*		Disability	Service Retirement**
	0-4 Yrs Svc	5-9 Yrs Svc	10+ Yrs Svc	Male	Female		
20	5.0%	2.0%		0.048%	0.028%	0.489%	
25	5.0	2.0	1.0%	0.062	0.029	0.557	
30	5.0	2.0	1.0	0.078	0.033	0.726	
35	5.0	2.0	1.0	0.085	0.045	1.013	
40	5.0	2.0	1.0	0.100	0.065	1.334	
45	5.0	2.0	1.0	0.146	0.092	1.856	
50	5.0	2.0	1.0	0.233	0.131	2.970	30%
55				0.398	0.208	5.181	30
60				0.709	0.386	10.142	20
65				1.294	0.762		40
70				2.173	1.271		30
75				3.405	2.038		100

*Scale AA mortality improvement factors are applied.

**An additional 20% are assumed to retire when first eligible for unreduced service retirement.



SCHEDULE C
(continued)

DEATHS AFTER RETIREMENT: According to the 1994 Group Annuity Mortality table with Projection Scale AA set forward three years for males and set forward two years for females.

ASSET VALUATION METHOD: Market value.

HEALTH CARE COST TREND RATES: Following is a chart detailing trend assumptions.

Year	Trend
2006	12.00%
2007	10.50%
2008	9.00%
2009	7.50%
2010 and beyond	6.00%

AGE RELATED MORBIDITY: Per capita costs are adjusted to reflect expected cost changes related to age. The increase to the net incurred claims was assumed to be:

Participant Age	Annual Increase
<40	0.0%
40 – 44	2.6%
45 – 49	2.6%
50 – 54	3.2%
55 – 59	3.4%
60 – 64	3.7%
65 – 69	3.2%
70 – 74	2.4%
75 – 79	1.8%
80 – 84	1.3%
85 and over	0.0%



SCHEDULE C
(continued)

ANTICIPATED PLAN PARTICIPATION: Representative values of the assumed annual rates of plan participation and spouse coverage are as follows:

Participation	100%
Spouse Coverage	0%

ANNUAL EXPECTED MEDICAL/RX/VISION CLAIMS (AGE ADJUSTED TO AGE 65): Following is a chart detailing expected claims age adjusted to age 65 for the year following the valuation date:

Pre-65	\$6,926
Post-65	3,356

ACTUARIAL METHOD: Costs were determined using the Projected Unit Credit Actuarial Cost Method. The annual service cost is the present value of the portion of the projected benefit attributable to participation service during the upcoming year, and the accumulated postretirement benefit obligation (APBO) is equal to the present value of the portion of the projected benefit attributable to service before the valuation date. Service from hire date through the expected retirement date was used in allocating costs.

BENEFITS VALUED: Medical, drug, and vision benefits for retirees under age 65 and Medicare eligible.



SCHEDULE D

THE HEALTH CARE PLAN OF THE TOWN OF CHAPEL HILL SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS

Benefits

Eligibility for Allowance

Any participant who commences retirement and meets the following conditions shall receive an annual retirement medical allowance. A participant must have:

- (1) Be eligible and approved to receive a retirement benefit in accordance with the regulations of the Local Governmental Employees Retirement System
- (2) A total of 5 years of service with the Town immediately prior to retirement.

Amount of Allowance

Continued health insurance benefits until the employee becomes eligible for Medicare (currently age 65.) When eligible for Medicare, retirees' insurance coverage for a supplemental policy will be paid by the Town.

Other Post Employment Benefits

Health care and vision coverage is provided by the Town.

Employer and Member Contributions

Retirees contribute to the cost of his coverage in accordance with the schedule of retiree cost established with each insurance plan year. This schedule varies by years of service and is as follows:

Service at Retirement	Retiree Percentage of Group Premium Rate
5 to 9 Years	75%
10 to 14 Years	50%
15 to 19 Years	25%
20 or more	0%