



**TOWN OF DEDHAM
POST RETIREMENT BENEFITS PLAN**

**ACTUARIAL VALUATION REPORT
JUNE 30, 2014**

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SECTION I – OVERVIEW

The Town of Dedham has engaged Sherman Actuarial Services to prepare an actuarial valuation of postretirement benefits program as of June 30, 2014. The Town provided employee data and premium information.

The purposes of the valuation are to analyze the current funded position of the Town's postretirement benefits program, determine the level of contributions necessary to assure sound funding and provide reporting and disclosure information for financial statements, governmental agencies and other interested parties. This valuation report contains information required by the Government Accounting Standards Board's Statements Nos. 43 and 45, respectively entitled "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" and "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions."

According to GASB principles, if the benefits are not prefunded, the rate earned by the General Asset Account must be used. To measure on this Pay-as-You-Go basis we would use a discount rate of 3.5%. Since the Town currently contributes the Annual Required Contribution on a 7.5% basis, GASB principles allow us to use a discount rate reflective of the percentage of the Annual Required Contribution that is currently being funded. The previous valuation used a discount rate of 5.75%. The 7.5% scenario figures should be reflected in the Town's financial statements based on the Town's current prefunding approach.

The unfunded actuarial liability decreased from \$55,224,571 to \$47,142,512 from 2012 to 2014, based on a 7.5% discount rate. Based on 5.75%, the expectation for 2014 was \$82,860,543. There was a gain of \$19 million mainly due to the decrease in medical trend and the plans offered to retirees, decrease in active participants, and elections by retirees. From 2012 to 2014, the weighted **decrease** in post-65 costs was about 10% for Teachers and about 7% versus an assumption of a 15% increase.

For 2014, we used the State assumptions on turnover, disability and retirement for Teachers covered by Section 114 of the Acts of 2000. Based on the foregoing, the cost results and actuarial exhibits presented in this report were determined on a consistent and objective basis in accordance with applicable Actuarial Standards of Practice and generally accepted actuarial procedures.

The report was prepared under the supervision of Daniel Sherman, an Associate of the Society of Actuaries and a Member of the American Academy of Actuaries, who takes responsibility for the overall appropriateness of the analysis, assumptions and results. Daniel Sherman is deemed to meet the General Qualification Standard and the basic education and experience requirement in the pension area. Based on over twenty years of performing FAS 106 valuations of similar complexity, Mr. Sherman is qualified by experience in retiree medical valuation. Daniel Sherman has met the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully Submitted,

SHERMAN ACTUARIAL SERVICES, LLC

Daniel Sherman, ASA, MAAA, EA
Director and Consulting Actuary

Date

SECTION II – REQUIRED INFORMATION

	Partial Prefunding 5.75%	Full Prefunding 7.50%	
a) Actuarial valuation date	June 30, 2014	June 30, 2014	Difference
b) Actuarial Value of Assets	\$ 5,876,987	\$ 5,876,987	\$ 0
c) Actuarial Accrued Liability			
Active participants	\$ 35,943,756	\$ 26,661,085	\$ 9,282,671
Retired participants	33,756,707	29,410,190	4,346,517
Total AAL	\$ 69,700,463	\$ 56,071,275	\$ 13,629,188
d) Unfunded Actuarial Liability "UAL" [c - b]	\$ 63,823,476	\$ 50,194,288	\$ 13,629,188
e) Funded ratio [b / c]	8.4%	10.5%	
f) Annual covered payroll	\$ 43,951,811	\$ 43,951,811	
g) UAL as percentage of covered payroll	145.2%	114.2%	
h) Normal Cost for fiscal year 2014	\$ 2,042,718	\$ 1,349,617	\$ 693,101
i) Amortization of UAL for fiscal year 2014*	2,829,562	2,704,872	124,690
j) Interest to the end of the fiscal year	0	0	0
k) Annual Required Contribution "ARC" for fiscal year 2014 [h + i + j]	\$ 4,872,280	\$ 4,054,489	\$ 817,791
l) Estimated claims cost, less retiree deductions	3,091,897	3,091,897	0

* 28-year amortization, increasing 4% per year

SECTION III - MEDICAL PREMIUM

Monthly Premiums effective July 1, 2014

Health benefits are available to employees and retirees through a number of plans. The Town obtains health insurance coverage for retired teachers through the Massachusetts Group Insurance Commission (“GIC”). The GIC purchases a variety of fully insured plans, with the rates provided to each participating municipality apparently based in part on the municipality’s demographic characteristics. The Town self-insures the non-GIC plans. The following are gross monthly rates per subscriber for plans in which current Town employees and/or retirees are enrolled:

Unicare State Indemnity w/o CIC - Individual	\$757
Unicare State Indemnity w/o CIC - Family	\$1810
Unicare State Indemnity w/ CIC - Individual	\$802
Unicare State Indemnity w/ CIC - Family	\$1920
Unicare State Indemnity OME w/CIC - Individual	\$332
Unicare State Indemnity OME w/o CIC - Individual	\$321
NHP Care - Individual	\$464
NHP Care - Family	\$1228
Tufts Medicare Complement - Individual	\$347
Harvard Pilgrim EPO - Individual	\$645
Harvard Pilgrim EPO - Family	\$1682
Medex III - Individual	\$312
Managed Blue for Seniors - Individual	\$267
Harvard Medicare Enhance - Individual	\$393
Tufts Medicare Preferred HMO – Individual	\$266
Blue Options – Individual	\$740
Blue Options – Family	\$1984
Tufts Medicare Plus – Individual	\$320
Tufts Navigator – Individual	\$734
Tufts Navigator - Family	\$1922
Fallon Select - Individual	\$550

Retirees contribute towards their coverage. In all GIC plans, those retired on or prior to July 1, 1990 contribute 10%, while others contribute 15%. For the non-GIC plans, contributions are 50% of stated premiums for Medicare plans, and contributions range from 10% to 25% for all other plans.

SECTION IV - MEMBERSHIP DATA AND BREAKDOWN OF RESULTS

Number of Employees	Culture & Recreation	Education	General Government	Human Services	Public Safety	Public Works	Total
Actives	22	389	39	15	134	27	626
Retirees and Beneficiaries	24	380	41	8	184	40	677
Total	46	769	80	23	318	67	1,303
Accrued Liability @ 5.75%							
Active	864,094	21,134,167	1,108,382	401,586	11,270,688	1,164,839	35,943,756
Retired	926,699	20,987,907	986,036	191,465	8,654,488	2,010,112	33,756,707
Total	1,790,793	42,122,074	2,094,418	593,051	19,925,176	3,174,951	69,700,463
Assets	(150,996)	(3,551,639)	(176,597)	(50,005)	(1,680,046)	(267,704)	(5,876,987)
UAL	1,639,797	38,570,435	1,917,821	543,046	18,245,130	2,907,247	63,823,476
Annual Required Contribution @ 5.75%							
Normal Cost with interest	43,410	1,267,697	90,968	37,424	535,756	67,463	2,042,718
Amortization of UAL with interest	72,699	1,709,989	85,025	24,076	808,883	128,890	2,829,562
Total	116,109	2,977,686	175,993	61,500	1,344,639	196,353	4,872,280
Estimated Claims Cost	76,701	1,882,150	100,112	16,827	828,983	187,124	3,091,897
Accrued Liability @ 7.5%							
Active	640,193	15,440,399	851,469	303,260	8,557,643	868,121	26,661,085
Retired	802,882	18,268,405	859,358	168,571	7,550,550	1,760,424	29,410,190
Total	1,443,075	33,708,804	1,710,827	471,831	16,108,193	2,628,545	56,071,275
Assets	(150,996)	(3,551,639)	(176,597)	(50,005)	(1,680,046)	(267,704)	(5,876,987)
UAL	1,292,079	30,157,165	1,534,230	421,826	14,428,147	2,360,841	50,194,288
Annual Required Contribution @ 7.5%							
Normal Cost with interest	29,331	826,137	64,224	26,625	358,800	44,500	1,349,617
Amortization of UAL with interest	69,628	1,625,110	82,677	22,731	777,505	127,221	2,704,872
Total	98,959	2,451,247	146,901	49,356	1,136,305	171,721	4,054,489
Estimated Claims Cost	76,701	1,882,150	100,112	16,827	828,983	187,124	3,091,897
Difference	22,258	569,097	46,789	32,529	307,322	(15,403)	962,592

**SECTION V – REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS**

Assumed Interest Rate of 5.75% for 2010 and 2012, 7.5% for 2014

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (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>
June 30, 2010	1,403,793	74,018,559	72,614,766	1.9%	45,934,750	158.1%
June 30, 2012	3,180,875	77,722,866	74,541,991	4.1%	39,791,854	187.3%
June 30, 2014	5,876,987	56,071,275	50,194,288	10.5%	43,951,811	145.2%

DEVELOPMENT OF OPEB COST AND NET OPEB OBLIGATION (NOO)

<u>Year Ending June 30</u>	<u>Annual Required Contribution</u>	<u>Interest on NOO</u>	<u>Amortization of NOO</u>	<u>Annual OPEB Cost (1) + (2) - (3)</u>	<u>Actual Contribution</u>	<u>Change in NOO (4) - (5)</u>	<u>NOO Balance</u>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2009	7,950,316	0	0	7,950,316	2,658,430	5,291,886	5,291,886
2010	5,065,094	198,446	208,483	5,055,057	3,534,713	1,520,344	6,812,230
2011	5,319,868	391,703	268,380	5,443,191	3,583,527	1,859,664	8,671,894
2012	5,622,162	198,446	208,483	5,612,125	3,964,104	1,648,021	10,319,915
2013	5,915,883	593,395	433,627	6,075,651	4,869,417	1,206,234	11,526,149
2014	4,054,489	662,754	484,311	4,232,932	3,091,899	1,141,033	12,667,183
2015	4,223,417	728,363	668,354	4,283,426			

Assumed discount rate changed from 5.75% to 7.5% for FYE 2014.

SECTION V – SCHEDULE OF EMPLOYER CONTRIBUTIONS

The Government Accounting Standards Board's Standard Number 45 "Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions" outlines various requirements of a funding schedule that will amortize the unfunded actuarial liability and cover normal costs. Amortization of the unfunded actuarial liability is to be based on a schedule that extends no longer than 30 years. The contribution towards the amortization of the unfunded actuarial liability may be made in level payments or in payments increasing at the same rate as salary increases. There is no requirement to actually fund the Annual Required Contribution, however.

In the amortization schedules shown on the following pages, the amortization of the unfunded accrued liability is increasing at 4.0% for 28 years. The normal cost is expected to increase at 4.5%, the same rate as the assumed ultimate health care trend rate. The contributions were computed assuming that the contribution is paid at the end of the fiscal year. Projected benefit payments/employer contributions reflect only the benefit for those individuals now employed or retired, not any future entrants.

SECTION V – SCHEDULE OF EMPLOYER CONTRIBUTIONS (Continued)

Assumed Partial Pre-Funding Interest Rate of 5.75%

Fiscal Year	Amortization			
	<u>Ending In</u>	<u>Normal Cost</u>	<u>of UAL</u>	<u>ARC</u>
2014	2,042,718	2,664,011	4,706,729	3,091,897
2015	2,134,640	2,774,643	4,909,283	3,075,653
2016	2,230,699	2,896,391	5,127,090	3,227,333
2017	2,331,080	3,022,869	5,353,949	3,471,757
2018	2,435,979	3,150,558	5,586,537	3,731,528
2019	2,545,598	3,279,070	5,824,668	3,966,238
2020	2,660,150	3,409,735	6,069,885	4,078,269
2021	2,779,857	3,548,161	6,328,018	4,256,612
2022	2,904,951	3,692,175	6,597,126	4,265,166
2023	3,035,674	3,849,625	6,885,299	4,378,297
2024	3,172,279	4,017,042	7,189,321	4,483,134
2025	3,315,032	4,195,615	7,510,647	4,590,481
2026	3,464,208	4,386,150	7,850,358	4,700,398
2027	3,620,097	4,589,507	8,209,604	4,812,947
2028	3,783,001	4,806,607	8,589,608	4,928,192
2029	3,953,236	5,038,435	8,991,671	5,046,195
2030	4,131,132	5,286,041	9,417,173	5,167,024
2031	4,317,033	5,550,551	9,867,584	5,290,747
2032	4,511,299	5,833,166	10,344,465	5,417,432
2033	4,714,307	6,135,167	10,849,474	5,547,150
2034	4,926,451	6,457,927	11,384,378	5,679,974
2035	5,148,141	6,802,909	11,951,050	5,815,979
2036	5,379,807	7,171,674	12,551,481	5,955,240
2037	5,621,898	7,565,892	13,187,790	6,097,836
2038	5,874,883	7,987,343	13,862,226	6,243,847
2039	6,139,253	8,437,926	14,577,179	6,393,353
2040	6,415,519	8,919,670	15,335,189	6,546,439
2041	6,704,217	9,434,738	16,138,955	6,703,191
2042	7,005,907	9,985,438	16,991,345	6,863,697
2043	7,321,173	10,574,229	17,895,402	7,028,045
2044	7,650,626	11,203,738	18,854,364	7,196,329
2045	7,994,904	11,876,762	19,871,666	7,368,642

SECTION V – SCHEDULE OF EMPLOYER CONTRIBUTIONS (Continued)

Assumed Full Prefunding Interest Rate of 7.5%

Fiscal Year	Amortization			
<u>Ending In</u>	<u>Normal Cost</u>	<u>of UAL</u>	<u>ARC</u>	<u>Pay-as-You-Go</u>
2014	1,349,617	2,704,872	4,054,489	3,091,897
2015	1,410,350	2,813,067	4,223,417	3,075,653
2016	1,473,816	2,925,590	4,399,406	3,227,333
2017	1,540,138	3,042,614	4,582,752	3,471,757
2018	1,609,444	3,164,319	4,773,763	3,731,528
2019	1,681,869	3,290,892	4,972,761	3,966,238
2020	1,757,553	3,422,528	5,180,081	4,078,269
2021	1,836,643	3,559,429	5,396,072	4,256,612
2022	1,919,292	3,701,806	5,621,098	4,265,166
2023	2,005,660	3,849,878	5,855,538	4,378,297
2024	2,095,915	4,003,873	6,099,788	4,483,134
2025	2,190,231	4,164,028	6,354,259	4,590,481
2026	2,288,791	4,330,589	6,619,380	4,700,398
2027	2,391,787	4,503,813	6,895,600	4,812,947
2028	2,499,417	4,683,966	7,183,383	4,928,192
2029	2,611,891	4,871,325	7,483,216	5,046,195
2030	2,729,426	5,066,178	7,795,604	5,167,024
2031	2,852,250	5,268,825	8,121,075	5,290,747
2032	2,980,601	5,479,578	8,460,179	5,417,432
2033	3,114,728	5,698,761	8,813,489	5,547,150
2034	3,254,891	5,926,711	9,181,602	5,679,974
2035	3,401,361	6,163,779	9,565,140	5,815,979
2036	3,554,422	6,410,330	9,964,752	5,955,240
2037	3,714,371	6,666,743	10,381,114	6,097,836
2038	3,881,518	6,933,413	10,814,931	6,243,847
2039	4,056,186	7,210,750	11,266,936	6,393,353
2040	4,238,714	7,499,180	11,737,894	6,546,439
2041	4,429,456	7,799,147	12,228,603	6,703,191
2042	4,628,782	-	4,628,782	6,863,697
2043	4,837,077	-	4,837,077	7,028,045
2044	5,054,745	-	5,054,745	7,196,329
2045	5,282,209	-	5,282,209	7,368,642

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

All Groups

Interest	Partial Prefunding: 5.75%, net of investment expenses Full Prefunding: 7.5%, net of investment expenses																		
Actuarial Cost Method:	Projected Unit Credit																		
Mortality: – Healthy:	The IRS Static Mortality Table.																		
–Disabled:	The RP-2000 Combined Healthy Table set forward 2 years.																		
Medical Care Inflation:	<table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;">Year</th> <th style="text-align: center;">Inflation Rate <u>Current Valuation</u></th> <th style="text-align: center;">Inflation Rate <u>Prior Valuation</u></th> </tr> </thead> <tbody> <tr> <td>2014</td> <td style="text-align: center;">6.5%</td> <td style="text-align: center;">6.0%</td> </tr> <tr> <td>2015</td> <td style="text-align: center;">6.0%</td> <td style="text-align: center;">5.5%</td> </tr> <tr> <td>2016</td> <td style="text-align: center;">5.5%</td> <td style="text-align: center;">5.0%</td> </tr> <tr> <td>2017</td> <td style="text-align: center;">5.0%</td> <td style="text-align: center;">5.0%</td> </tr> <tr> <td>2018+</td> <td style="text-align: center;">4.5%</td> <td style="text-align: center;">5.0%</td> </tr> </tbody> </table>	Year	Inflation Rate <u>Current Valuation</u>	Inflation Rate <u>Prior Valuation</u>	2014	6.5%	6.0%	2015	6.0%	5.5%	2016	5.5%	5.0%	2017	5.0%	5.0%	2018+	4.5%	5.0%
Year	Inflation Rate <u>Current Valuation</u>	Inflation Rate <u>Prior Valuation</u>																	
2014	6.5%	6.0%																	
2015	6.0%	5.5%																	
2016	5.5%	5.0%																	
2017	5.0%	5.0%																	
2018+	4.5%	5.0%																	
Participation:	90% of future Town and School retirees are assumed to participate in the retiree medical plan. 85% of future Town and School retirees are assumed to elect life insurance.																		
Marital status:	80% of male Town employees, 60% of female Town employees and 60% of School employees are assumed to have a covered spouse at retirement. Wives are assumed to be three years younger than their husbands.																		
Termination Benefit:	85% of current actives over age 50 with at least 10 years of service are expected to elect medical coverage starting at age 65.																		
Medical Plan Costs:	The estimated gross per capita incurred claim costs of Non-Teachers for all retirees and beneficiaries during 2014-15 at age 64 and 65 are \$13,321 and \$2,937, respectively. Medicare eligible retirees' per capita claims costs for Non-Teachers at age 65 is \$2,637. It is assumed that future retirees participate in the same manner as current retirees. Per capita costs were developed from age adjusting a blend of the current premium rates for the various insured arrangements. Employee cost sharing is based on current rates. Future cost sharing is based on the weighted average of the current cost sharing of retirees and beneficiaries. Premium costs include cost of administration, including a 0.33% administrative fee for the Group Insurance Commission.																		

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS (Continued)

Amortization period: 28-year level percent of pay assuming 4% increasing payments. Closed basis for the full Prefunding method forecast. For a closed basis, the amortization period is a specific number of years that is counted from one date, declining to zero with the passage of time.

Age-based Morbidity: Medical costs are adjusted to reflect expected cost increases related to age. The increase in the net costs assumed to be:

<u>Age</u>	<u>Annual Increase Retiree</u>
49 and below	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 and over	0.0%

Current Employees: Current active employees who are assumed to retire prior to age 65 are valued with a weighted-average current cost. This weighted-average current cost is based on the medical plan coverage of current retirees under age 65.

At age 65, active participants are assumed to participate in the same manner as current retirees over age 65 in Medicare Supplemental plans.

Pre-Age 65 Retirees: Current retirees, spouses and beneficiaries who are under age 65 are assumed to remain in their current medical plan until age 65. At age 65, all participants are assumed to participate in Medicare supplement plan in the same proportions as current post 65 retirees.

Current active employees who are assumed to retire prior to age 65 are valued with a weighted-average premium. This weighted-average premium is based on the medical plan coverage of current retirees under age 65. At age 65, all participants are assumed to participate in post 65 Medicare supplemental plans in the same proportions as current retirees over age 65.

Post-Age 65 Retirees: Current retirees over age 65 remain in their current medical plan until death for purposes of measuring their contributions. Amounts to be received in the future for the Medicare Part D Retiree Drug Subsidy are not reflected in the valuation.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS (Continued)**NON-TEACHERS**

The below tables represent values of the assumed annual rates of withdrawal, disability, death and service retirement:

Group 1 and 2

Age	Disability	Service Retirement		Years of Service	Rates of Withdrawal
		Male	Female		
25	.02%			0	15.0%
30	.03			1	12.0%
35	.06			2	10.0%
40	.10			3	9.0%
45	.15			4	8.0%
50	.19	1.0%	1.5%	5	7.6%
55	.24	2.0	5.5	10	5.4%
60	.28	12.0	5.0	15	3.3%
62	.30	30.0	15.0	20	2.0%
65	.30	40.0	15.0	25	1.0%
69		30.0	20.0	30+	0.0%

It is assumed that 45% of all disabilities are ordinary and 55% are service connected.

Group 4

Age	Disability	Service Retirements	Years of Service	Rates of Withdrawal
30	0.30		1	1.5
35	0.30		2	1.5
40	0.30		3	1.5
45	1.00	1.0%	4	1.5
50	1.25	2.0	5	1.5
55	1.20	15.0	6	1.5
60	0.85	20.0	7	1.5
62	0.75	25.0	8	1.5
65	0.00	100.0	9	1.5
69			10	1.5
			11+	0.0

It is assumed that 10% of all disabilities are assumed to be ordinary and 90% are service connected.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS (Continued)**TEACHERS**

The below tables represent values of the assumed annual rates of withdrawal, disability, death and service retirement:

Age	Disability	Years of Service	Rates of Withdrawal
25	0.0002	0	0.150
30	0.0003	1	0.120
35	0.0006	2	0.100
40	0.0010	3	0.090
45	0.0015	4	0.080
50	0.0019	5	0.076
55	0.0024	10	0.054
60	0.0028	15	0.033
62	0.0030	20	0.020
65	0.0030	25	0.010
69		30+	0.000

Age	Male Service Retirement		Female Service Retirement	
	<20	20+	<20	20+
50	0.00	0.01	0.00	0.01
55	0.02	0.03	0.02	0.04
60	0.12	0.20	0.12	0.16
61	0.15	0.30	0.15	0.20
62	0.18	0.35	0.18	0.25
63	0.15	0.35	0.15	0.25
64	0.25	0.30	0.25	0.30
65	0.40	0.50	0.40	0.40
66	0.40	0.30	0.40	0.30
67	0.40	0.30	0.40	0.25
68	0.40	0.30	0.40	0.35
69	0.40	0.40	0.40	0.35
70	1.00	1.00	1.00	1.00

Teachers electing the increased benefit under Chapter 114 of the Acts of 2000 were assumed to have higher rates of retirement from ages 54 to 62 if their service was greater than 30 years. These rates are the same for males and females. The rate at age 54 is 0.035. The rate increases to 0.06 at age 55, 0.18 at age 56 and 0.30 at age 57. The rate for ages 58, 59 and 62 is 0.40. The rate for ages 60 and 61 is 0.35.

SCHEDULE B – CONSIDERATION OF HEALTH CARE REFORM*Summary of Effects of Selected Provisions*

Early Retiree Reinsurance Program – Effective 6/1/2010: Due to the short-term nature of the payments expected to be received under this program, we did not feel it would be appropriate to include the impact of this program on long-term GASB 45 liabilities.

Removal of Lifetime Maximum The elimination of the lifetime maximums would have a negligible impact on the retiree health plan obligations since the plans have relatively high lifetime maximums of \$2 million or none.

Medicare Advantage Plans - Effective 1/1/2011: The law provides for reductions to the amounts that would be provided to Medicare Advantage plans starting in 2011. The Town offers Medicare Advantage plans. Payments are not reflected as an ongoing offsetting item in GASB 45 valuations, and so no direct impact is reflected.

Expansion of Child Coverage to Age 26: Since few retirees cover children on retiree health plans, this provision has a relatively small effect on the gross benefit cost.

Medicare Part D Subsidy - Shrinking Medicare Prescription Drug “Donut Hole”- Starting 1/1/2011– RDS payments are not reflected as an ongoing offsetting item in GASB 45 valuations, and so no direct impact is reflected.

Excise Tax on High-Cost Employer Health Plans (aka Cadillac Tax) - Effective 1/1/2018 There is considerable uncertainty about how the tax would be applied, and considerable latitude in grouping of participants for tax purposes. Based on a preliminary projection of the calculation on a blended pre-65/post-65 retiree coverage basis, we have included an estimate of the tax payments in the liabilities.

Other: We have not identified any other specific provision of health care reform that would be expected to have a significant impact on the measured obligation. As additional guidance on the legislation is issued, we will continue to monitor any potential impacts.

SCHEDULE C - SUMMARY OF PROGRAM PROVISIONS

Retirement Medical Insurance: Retired employees pay a variable portion of their post-retirement medical costs, which varies by plan.

Life Insurance: The Town contributes \$2.25 per month for each retired teacher receiving \$5,000 basic life insurance. The Town contributes \$3.15 per month for all other retirees receiving \$5,000 basic life insurance.

Spousal Coverage: Current and future retirees may elect to include their spouses as part of their post-retirement benefits. There is lifetime spousal coverage for medical insurance.

Section 18 Coverage: The Town has elected to adopt Section 18 under Chapter 32B of the General Laws of Massachusetts, which requires that an employee or retiree must participate in the Medicare program as the primary payer once one reaches age 65 and is Medicare eligible.

Retirement Eligibility: Age 55 with 10 years of service, or 20 years of service.

Ordinary Disability Eligibility: 10 years of service and under age 55.

Termination Eligibility: 10 years of service.

SCHEDULE D - GLOSSARY OF TERMS

Actuarial accrued liability

That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of OPEB benefits and expenses which is not provided for by future Normal Costs and therefore is the value of benefits already earned.

Actuarial assumptions

Assumptions as to the occurrence of future events affecting OPEB costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and Government provided OPEB benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; characteristics of future entrants for Open Group Actuarial Cost Methods; and other relevant items.

Actuarial cost method

A procedure for determining the Actuarial Present Value of OPEB 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 Accrued Liability.

Actuarial experience gain or loss

A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates, as determined in accordance with a particular Actuarial Cost Method.

Amortization (of unfunded actuarial accrued liability)

That portion of the OPEB plan contribution which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability or the Unfunded Frozen Actuarial Accrued Liability.

Annual OPEB cost

An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.

Annual required contributions of the employer (ARC)

The employer's periodic expense to a defined benefit OPEB plan, calculated in accordance with the parameters. It is the value of the cash contributions for a funded plan and the value of the expense entry in the profit and loss section of the financial statements.

Closed amortization period (closed basis)

A specific number of years that is counted from one date and, therefore, declines to zero with the passage of time. For example, if the amortization period initially is thirty years on a closed basis, twenty-nine years remain after the first year, twenty-eight years after the second year, and so forth. In contrast, an open amortization period (open basis) is one that begins again or is recalculated at each actuarial valuation date. Within a maximum number of years specified by law or policy (for example, thirty years), the period may increase, decrease, or remain stable.

SCHEDULE D - GLOSSARY OF TERMS (Continued)**Covered payroll**

Annual compensation paid to active employees covered by an OPEB plan. If employees also are covered by a pension plan, the covered payroll should include all elements included in compensation on which contributions to the pension plan are based. For example, if pension contributions are calculated on base pay including overtime, covered payroll includes overtime compensation.

Defined benefit OPEB plan

An OPEB plan having terms that specify the benefits to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based on one or more factors such as age, years of service, and compensation), or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums).

Funded ratio

The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

Funding policy

The program for the amounts and timing of contributions to be made by plan members, employer(s), and other contributing entities (for example, state government contributions to a local government plan) to provide the benefits specified by an OPEB plan.

Healthcare cost trend rate

The rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

Investment return assumption (discount rate)

The rate used to adjust a series of future payments to reflect the time value of money.

Level dollar amortization method

The amount to be amortized is divided into equal dollar amounts to be paid over a given number of years; part of each payment is interest and part is principal (similar to a mortgage payment on a building). Because payroll can be expected to increase as a result of inflation, level dollar payments generally represent a decreasing percentage of payroll; in dollars adjusted for inflation, the payments can be expected to decrease over time.

Level percentage of projected payroll amortization method

Amortization payments are calculated so that they are a constant percentage of the projected payroll of active plan members over a given number of years. The dollar amount of the payments generally will increase over time as payroll increases due to inflation; in dollars adjusted for inflation, the payments can be expected to remain level.

SCHEDULE D - GLOSSARY OF TERMS (Continued)**Net OPEB obligation**

The cumulative difference since the effective date of this Statement between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt. It will be included as a balance sheet entry on the financial statements.

Normal cost

That portion of the Actuarial Present Value of OPEB benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. It is the value of benefits to be accrued in the valuation year by active employees.

OPEB-related debt

All long-term liabilities of an employer to an OPEB plan, the payment of which is not included in the annual required contributions of a sole or agent employer (ARC) or the actuarially determined required contributions of a cost-sharing employer. Payments generally are made in accordance with installment contracts that usually include interest. Examples include contractually deferred contributions and amounts assessed to an employer upon joining a multiple-employer plan.

Other postemployment benefits

Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, excluding benefits defined as termination offers and benefits.

Pay-as-you-go

A method of financing a OPEB plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

Required supplementary information (RSI)

Schedules, statistical data, and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity.