



CONSULTING GROUP



A POSTRETIREMENT WELFARE BENEFIT GASB 75 ACTUARIAL VALUATION

For:

Town of East Longmeadow, MA

As of:

July 1, 2017

(Updated as of June 30, 2018)

Prepared by:

USI Consulting Group

June 27, 2019



CONSULTING GROUP

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June 27, 2019

Town of East Longmeadow, MA
60 Center Square
East Longmeadow, MA 01028

RE: July 1, 2017 Actuarial Valuation of Postretirement Welfare Benefits

We enclose the report covering the actuarial valuation of the postretirement medical insurance plan for the employees of the Town of East Longmeadow, MA as of July 1, 2017.

The financial results of the actuarial valuation are summarized in the report. The Executive Summary highlights the results of the valuation, including the calculation of the OPEB expense for the fiscal year ending June 30, 2018 and the estimated OPEB expense for the fiscal year ending June 30, 2019.

Additional information summarizing census information, actuarial assumptions, and the methodology for developing them, as well as a glossary of selected terms used in this study, are also included in the report.

All calculations are made in accordance with our understanding of the provisions of the Statement of Governmental Accounting Standards Numbers 75 (GAS 75). This report provides information for the fiscal years ending June 30, 2018 and June 30, 2019. When completed, we would appreciate a copy of the footnote to your financial statement related to the postretirement benefits.

Respectfully submitted,

USI Consulting Group

A handwritten signature in blue ink that reads "Robert W. Webb".

Robert W. Webb, FSA, EA, MAAA
Vice President and Actuary

A handwritten signature in blue ink that reads "John Sheaves".

John Sheaves
Senior Actuarial Consultant

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Section I

Executive Summary

This section presents the results of the July 1, 2017 valuation. The Executive Summary provides a brief discussion of key valuation results and includes the actuarial certification. The Executive Summary Detail provides detailed development of the expenses and liabilities.

EXECUTIVE SUMMARY

Introduction

Other postemployment benefits (“OPEB”) are benefits, other than pension or retirement income benefits, that are earned during employment but are payable upon cessation of employment. OPEB includes postemployment health care benefits (medical, dental, vision, hearing, and other health-related benefits), whether provided separately or through a defined benefit pension plan. OPEB also includes life insurance, disability, long-term care, etc., when provided separately from a pension plan.

Unlike pension plans, there is no requirement that OPEB benefits be funded prior to when the benefits are payable; however, Generally Accepted Accounting Principles (“GAAP”) view OPEB as a form of deferred compensation, and require that the costs related to these benefits be recognized during employment.

This July 1, 2017 Actuarial Valuation has been prepared to assist management in meeting the requirements of Government Accounting Standards. This is a biennial valuation that provides financial results for fiscal years ending June 30, 2018 and June 30, 2019.

This report provides the information needed to prepare the footnote in your financial statements related to your postretirement benefit plans. The results for fiscal years ending June 30, 2018 and June 30, 2019 are developed to comply with Statement of Governmental Accounting Standards Number 75 (GAS 75), which replaces GAS 45 for fiscal years beginning after June 15, 2017. The results have been updated as of June 30, 2018. The June 30, 2019 values are at this point still estimates that may need to be updated to reflect appropriate assumptions (in particular, the discount rate) as of those measurement dates.

Additional information about GAS 75 is provided in Appendix E.

The liabilities developed in this report are only valid for purposes of meeting employer accounting requirements as required by Standards discussed above. Liabilities developed for other purposes could be significantly different than those shown in this report.

The valuation is based on the July 1, 2018 census data and plan information as provided by the employer. We have reviewed both the census and financial data for reasonableness, but have not completed an independent audit of the information.

The detail charts included in this Executive Summary highlight the results of the valuation. Additional information summarizing the census, actuarial assumptions, plan provisions, and a glossary of selected terms used in this study are also included in this report.

EXECUTIVE SUMMARY (cont.)

Actuarial Certification

All costs, liabilities, and other factors under the plan were determined in accordance with generally accepted actuarial principles and procedures. The calculations are consistent and undertaken with our understanding of Statement of Governmental Accounting Standards Number 75. In our opinion, the actuarial assumptions are reasonable, taking into account the experience of the plan and reasonable expectations, and individually represent our best estimate of the anticipated experience under the plan.

I have no relationship with the employer or the plan that would objectively impair, or appear to impair, my ability to perform the work detailed in this report. I certify that I am a member of the American Academy of Actuaries and meet its Qualification Standards to provide an actuarial opinion in accordance with GASB 75.



Robert W. Webb, FSA, EA, MAAA
Vice President and Actuary



Adeniyi Olaiya, ASA, MAAA
Associate Vice President and Actuary

EXECUTIVE SUMMARY (cont.)

Summary of Results

For fiscal years ending June 30, 2018 and June 30, 2019, the Total OPEB Liability, the Fiduciary Net Position, the Net OPEB Liability and Deferred Outflows / (Inflows) of resources are based on calculations as of the Valuation Date projected to the end of the applicable fiscal year. Additional detail is developed in the exhibits included in this actuarial valuation report.

Fiscal Year Ending June 30, 2018

<i>Total OPEB Liability</i>	\$62,516,491
<i>Fiduciary Net Position</i>	\$5,632,044
<i>Net OPEB Liability</i>	\$56,884,447
<i>OPEB Expense</i>	\$2,153,009
<i>Deferred (Outflows)/Inflows of Resources</i>	\$23,844,806
<i>Expected Benefit Payments</i>	\$1,350,566

Fiscal Year Ending June 30, 2019 (Estimated)

<i>Total OPEB Liability</i>	\$66,471,963
<i>Fiduciary Net Position</i>	\$6,966,241
<i>Net OPEB Liability</i>	\$59,505,722
<i>OPEB Expense</i>	\$630,772
<i>Deferred (Outflows)/Inflows of Resources</i>	\$19,281,636
<i>Expected Benefit Payments</i>	\$1,572,666

Economic Assumptions

The following table details the selected and projected economic assumptions for the current fiscal year and the fiscal year ending June 30, 2019, respectively. More detailed information is provided in Section IV.

<u>Assumption Selection Date</u>	<u>July 1, 2017</u>	<u>June 30, 2018</u>	<u>June 30, 2019</u>
<i>Discount rate</i>	3.13%	5.45%	5.45% *
<i>2017 Medical Trend Rates</i>	8.00%	8.00%	8.00%
<i>2018 Medical Trend Rates</i>	7.50%	7.50%	7.50%
<i>Ultimate Medical Trend Rate</i>	5.00%	5.00%	5.00%
<i>Year Ultimate Trend Rates Reached</i>	2023	2023	2023
<i>Annual Payroll Increase</i>	2.50%	2.50%	2.50%

*Estimated

Experience Gains and Losses

The plan had an accumulated experience loss over the past two years primarily due to healthcare costs increasing more than assumed and unfavorable demographic experience. The impact of the loss on the Total OPEB Liability is provided in Section III.

EXECUTIVE SUMMARY (cont.)

Assumption Changes included in current valuation

The mortality table was updated to the RPH-2014 Total dataset mortality table with projection scale MP-2017. The healthcare cost trend rate was reset at 8.0% for 2017, grading down 0.5% per annum to an ultimate trend rate of 5.0% for years 2023 and later. The impact of these changes on the Total OPEB Liability is shown in Section III.

Benefit Changes included in current valuation

None

Discount Rate

In accordance with GAS 75, the discount rate should be the single rate that reflects the following:

- a) The long-term expected rate of return on OPEB plan investments that are expected to be used to finance the payment of benefits, to the extent that (1) the plan's fiduciary net position is projected to be sufficient to make projected benefit payments and (2) OPEB assets are expected to be invested using a strategy to achieve that return.
- b) A yield or index rate for 20-year, tax-exempt, general obligation municipal bonds with an average rating of AA/Aa or higher. To the extent that the conditions in (a) are not met.

The plan's investment advisor has provided an analysis of long-term real rates of return for various asset classes, which we have applied to the current asset allocation of the OPEB Trust fund to produce an expected long-term rate of return on the Trust investments of 7.25% assuming a rate of inflation of 2.0%. The details for this assumption are provided in Appendix F of the report.

We have applied our professional judgement to project cash flows for contributions from the employer in determining the discount rate. The employer has not adopted a formal written funding policy. The employer has made contributions of \$1,000,000 to the Trust in the past year, and has indicated an intent to continue funding. In addition, the employer is paying plan benefits directly outside of the Trust. Based on this level of funding, our cashflow projections do not meet the requirements of (a) above, fully. Thus, we have adopted a discount rate of 5.45% as of the June 30, 2018 measurement date, which blends the long term expected rate of return with the index rate, in accordance with the provisions of GAS 75. This assumption will be reviewed as of the next measurement date and modified as appropriate.

Actuarial Determined Contribution

To our knowledge the plan sponsor is not subject to statutorily or contractually required contributions. For purposes of developing the discount rate we have developed an Actuarial Determined Contribution (ADC) such that if the plan is funded at the ADC level the funding will meet the requirements of (a) above under the Discount Rate discussion.

EXECUTIVE SUMMARY DETAIL
GASB 75 LIABILITIES AND EXPENSE
FOR FISCAL YEAR ENDING JUNE 30, 2018

	<u>General</u>	<u>ELCAT</u>	<u>DPW</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
I. Present Value of Future Benefits						
A. Retirees/Disableds	\$25,205,935	\$0	\$222,893	\$215,354	\$0	\$25,644,182
B. Active Employees	<u>\$50,438,240</u>	<u>\$200,789</u>	<u>\$2,800,204</u>	<u>\$310,618</u>	<u>\$548,274</u>	<u>\$54,298,125</u>
C. Total	\$75,644,175	\$200,789	\$3,023,097	\$525,972	\$548,274	\$79,942,307
II. Total OPEB Liability						
A. Retirees/Disableds	\$25,205,935	\$0	\$222,893	\$215,354	\$0	\$25,644,182
B. Active Employees	<u>\$34,219,856</u>	<u>\$128,774</u>	<u>\$2,012,926</u>	<u>\$164,822</u>	<u>\$345,931</u>	<u>\$36,872,309</u>
C. Total	\$59,425,791	\$128,774	\$2,235,819	\$380,176	\$345,931	\$62,516,491
III. Fiduciary Net Position	\$5,353,605	\$11,601	\$201,423	\$34,250	\$31,165	\$5,632,044
IV. Net OPEB Liability	\$54,072,186	\$117,173	\$2,034,396	\$345,926	\$314,766	\$56,884,447
V. Expected Benefit Payments						
A. Retirees/Disableds	\$1,324,819	\$0	\$14,981	\$10,766	\$0	\$1,350,566
B. Active Employees	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
C. Total	\$1,324,819	\$0	\$14,981	\$10,766	\$0	\$1,350,566
VI. OPEB Expense						
A. Service Cost	\$3,650,987	\$21,825	\$194,770	\$34,295	\$43,792	\$3,945,669
B. Interest	\$2,736,504	\$6,164	\$115,518	\$17,494	\$17,575	\$2,893,255
C. Projected Investment Earnings	(\$116,677)	(\$253)	(\$4,390)	(\$746)	(\$679)	(\$122,745)
D. Changes of Benefit Terms	\$0	\$0	\$0	\$0	\$0	\$0
E. Recognition of Deferred Outflows/ Inflows of Resources	<u>(\$4,382,393)</u>	<u>(\$3,087)</u>	<u>(\$113,560)</u>	<u>(\$33,529)</u>	<u>(\$30,601)</u>	<u>(\$4,563,170)</u>
F. OPEB Expense	\$1,888,421	\$24,649	\$192,338	\$17,514	\$30,087	\$2,153,009
	<i>[A. + B. + C. + D. + E.]</i>					
VII. Deferred (Outflows) of Resources						
A. Experience Loss	(\$2,934,458)	(\$40,633)	(\$334,173)	\$0	\$0	(\$3,309,264)
B. Change In Assumptions	\$0	\$0	\$0	\$0	\$0	\$0
C. Investment Loss	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
D. Total	(\$2,934,458)	(\$40,633)	(\$334,173)	\$0	\$0	(\$3,309,264)
Deferred Inflows of Resources						
A. Experience Gain	\$0	\$0	\$0	\$87,434	\$96,051	\$183,485
B. Change In Assumptions	\$25,109,152	\$66,354	\$1,414,114	\$168,712	\$212,081	\$26,970,413
C. Investment Gain	<u>\$164</u>	<u>\$0</u>	<u>\$6</u>	<u>\$1</u>	<u>\$1</u>	<u>\$172</u>
D. Total	\$25,109,316	\$66,354	\$1,414,120	\$256,147	\$308,133	\$27,154,070
Recognition in Expense						
Year ended June 30,						
2019	(\$4,382,393)	(\$3,087)	(\$113,560)	(\$33,529)	(\$30,601)	(\$4,563,170)
2020	(\$4,382,393)	(\$3,087)	(\$113,560)	(\$33,528)	(\$30,600)	(\$4,563,168)
2021	(\$4,382,393)	(\$3,087)	(\$113,560)	(\$33,528)	(\$30,600)	(\$4,563,168)
2022	(\$4,382,389)	(\$3,087)	(\$113,558)	(\$33,528)	(\$30,600)	(\$4,563,162)
2023	(\$4,382,351)	(\$3,087)	(\$113,558)	(\$33,528)	(\$30,600)	(\$4,563,124)
Thereafter	(\$262,939)	(\$10,286)	(\$512,151)	(\$88,506)	(\$155,132)	(\$1,029,014)

EXECUTIVE SUMMARY DETAIL
ESTIMATED GASB 75 LIABILITIES AND EXPENSE
FOR FISCAL YEAR ENDING JUNE 30, 2019

	<u>General</u>	<u>ELCAT</u>	<u>DPW</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<i>I. Present Value of Future Benefits</i>						
A. Retirees/Disableds	\$28,317,192	\$26,818	\$436,661	\$228,482	\$13,568	\$29,022,721
B. Active Employees	<u>\$52,242,929</u>	<u>\$183,857</u>	<u>\$2,894,209</u>	<u>\$329,062</u>	<u>\$579,431</u>	<u>\$56,229,488</u>
C. Total	\$80,560,121	\$210,675	\$3,330,870	\$557,544	\$592,999	\$85,252,209
<i>II. Total OPEB Liability</i>						
A. Retirees/Disableds	\$28,317,192	\$26,818	\$436,661	\$228,482	\$13,568	\$29,022,721
B. Active Employees	<u>\$34,774,822</u>	<u>\$120,298</u>	<u>\$1,999,305</u>	<u>\$178,679</u>	<u>\$376,138</u>	<u>\$37,449,242</u>
C. Total	\$63,092,014	\$147,116	\$2,435,966	\$407,161	\$389,706	\$66,471,963
<i>III. Fiduciary Net Position</i>	\$6,620,392	\$14,507	\$250,047	\$42,409	\$38,886	\$6,966,241
<i>IV. Net OPEB Liability</i>	\$56,471,622	\$132,609	\$2,185,919	\$364,752	\$350,820	\$59,505,722
<i>V. Expected Benefit Payments</i>						
A. Retirees/Disableds	\$1,428,257	\$0	\$16,180	\$11,627	\$0	\$1,456,064
B. Active Employees	<u>\$108,873</u>	<u>\$1,044</u>	<u>\$5,972</u>	<u>\$356</u>	<u>\$357</u>	<u>\$116,602</u>
C. Total	\$1,537,130	\$1,044	\$22,152	\$11,983	\$357	\$1,572,666
<i>VI. OPEB Expense</i>						
A. Service Cost	\$1,902,303	\$11,755	\$95,820	\$17,611	\$23,981	\$2,051,470
B. Interest	\$3,301,050	\$7,631	\$126,479	\$21,357	\$20,151	\$3,476,668
C. Projected Investment Earnings	(\$317,635)	(\$692)	(\$11,977)	(\$2,034)	(\$1,858)	(\$334,196)
D. Changes of Benefit Terms	\$0	\$0	\$0	\$0	\$0	\$0
E. Recognition of Deferred Outflows/ (Inflows) of Resources	<u>(\$4,382,393)</u>	<u>(\$3,087)</u>	<u>(\$113,560)</u>	<u>(\$33,529)</u>	<u>(\$30,601)</u>	<u>(\$4,563,170)</u>
F. OPEB Expense	\$503,325	\$15,607	\$96,762	\$3,405	\$11,673	\$630,772
[A. + B. + C. + D. + E.]						
<i>VII. Deferred (Outflows) of Resources</i>						
A. Experience Loss	(\$2,354,525)	(\$35,754)	(\$299,033)	\$0	\$0	(\$2,689,312)
B. Change In Assumptions	\$0	\$0	\$0	\$0	\$0	\$0
C. Investment Loss	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
D. Total	(\$2,354,525)	(\$35,754)	(\$299,033)	\$0	\$0	(\$2,689,312)
<i>Deferred Inflows of Resources</i>						
A. Experience Gain	\$0	\$0	\$0	\$75,989	\$86,512	\$162,501
B. Change In Assumptions	\$20,146,868	\$58,388	\$1,265,416	\$146,629	\$191,020	\$21,808,321
C. Investment Gain	<u>\$122</u>	<u>\$0</u>	<u>\$4</u>	<u>\$0</u>	<u>\$0</u>	<u>\$126</u>
D. Total	\$20,146,990	\$58,388	\$1,265,420	\$222,618	\$277,532	\$21,970,948
<i>Recognition in Expense</i>						
<i>Year ended June 30,</i>						
2020	(\$4,382,393)	(\$3,087)	(\$113,560)	(\$33,528)	(\$30,600)	(\$4,563,168)
2021	(\$4,382,393)	(\$3,087)	(\$113,560)	(\$33,528)	(\$30,600)	(\$4,563,168)
2022	(\$4,382,389)	(\$3,087)	(\$113,558)	(\$33,528)	(\$30,600)	(\$4,563,162)
2023	(\$4,382,351)	(\$3,087)	(\$113,558)	(\$33,528)	(\$30,600)	(\$4,563,124)
2024	(\$262,939)	(\$3,087)	(\$113,558)	(\$33,528)	(\$30,600)	(\$443,712)
Thereafter	\$0	(\$7,199)	(\$398,593)	(\$54,978)	(\$124,532)	(\$585,302)

Section II

Census Information

This section details statistics related to the participants in the postretirement benefit plan.

CENSUS INFORMATION – A.

EMPLOYEE COUNTS

	<i>As of July 1, 2018</i>				<i>As of July 1, 2015</i>			
	<i>Actives</i>	<i>Inactives Not Receiving Benefits</i>	<i>Inactives Receiving Benefits</i>	<i>Total</i>	<i>Actives</i>	<i>Inactives Not Receiving Benefits</i>	<i>Inactives Receiving Benefits</i>	<i>Total</i>
Male	145	0	85	230	133	0	110	243
Female	<u>259</u>	0	<u>185</u>	<u>444</u>	<u>255</u>	0	<u>170</u>	<u>425</u>
Total	404	0	270	674	388	0	280	668

COUNTS BY AGE AND ELIGIBILITY STATUS

ACTIVE EMPLOYEES

**INACTIVE EMPLOYEES
NOT YET RECEIVING BENEFITS**

<i>Age</i>	<i>Currently Eligible to Retire</i>	<i>Not Currently Eligible to Retire</i>	<i>Total</i>	<i>Currently Eligible to Retire</i>	<i>Not Currently Eligible to Retire</i>	<i>Total</i>
29 and under	0	26	26	0	0	0
30 - 34	0	23	23	0	0	0
35 - 39	0	46	46	0	0	0
40 - 44	3	42	45	0	0	0
45 - 49	13	39	52	0	0	0
50 - 54	16	41	57	0	0	0
55 - 59	51	25	76	0	0	0
60 - 64	42	11	53	0	0	0
65 and over	22	4	26	0	0	0
Total	144	257	404	0	0	0

INACTIVES RECEIVING BENEFITS

<i>Age</i>	<i>Retirees</i>	<i>Spouse</i>	<i>Total</i>
54 and under	5	2	7
55 - 59	12	6	18
60 - 64	33	15	48
65 - 69	60	27	87
70 - 74	55	30	85
75 - 79	40	18	58
80 - 84	28	9	37
85 - 89	19	2	21
90 and over	18	1	19
Total	270	110	380

CENSUS INFORMATION – B.

AVERAGE AGE AND SERVICE

	<u>As of July 1, 2018</u>	<u>As of July 1, 2015</u>
ACTIVE EMPLOYEES:		
A. Average Age at Hire		
Males	32.6	32.7
Females	38.7	37.8
Total	36.5	36.0
B. Average Service		
Males	12.8	12.9
Females	13.2	13.3
Total	13.1	13.2
C. Average Current Age		
Males	45.4	45.6
Females	51.9	51.1
Total	49.6	49.2
INACTIVES NOT RECEIVING BENEFITS:		
D. Average Current Age		
Males	N/A	N/A
Females	N/A	N/A
Total	N/A	N/A
CURRENT RETIREES		
E. Average Current Age		
Males	73.5	73.7
Females	72.9	73.8
Total	73.1	73.7

Section III

Financial Statement Disclosure

This section provides the required information and notes to the Financial Statements for the fiscal years ending June 30, 2018 and June 30, 2019.

FINANCIAL STATEMENT DISCLOSURE

The GASB standard on accounting for postretirement benefits other than pensions requires the following disclosures in the financial statements regarding the retiree benefit liability:

1.) Fiscal Year Ending June 30, 2018

Changes in Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Non Trust Assets (c)	Net OPEB Liability (d)
<i>Balances as of 06/30/2017</i>	<u>\$85,435,891</u>	<u>\$2,334,081</u>	<u>\$0</u>	<u>\$83,101,810</u>
Changes for the year:				
Service Cost	\$3,945,669			\$3,945,669
Interest	\$2,893,255			\$2,893,255
Difference between expected and actual experience	\$3,724,747	\$218		\$3,724,529
Contributions - employer		\$3,175,000	\$1,350,566	(\$4,525,566)
Projected Investment Income		\$122,745		(\$122,745)
Changes in Benefit Terms	\$0			\$0
Changes in assumptions	(\$32,132,505)			(\$32,132,505)
Benefit Payments	(\$1,350,566)	\$0	(\$1,350,566)	\$0
Administration Expenses		\$0		\$0
Net Changes	<u>(\$22,919,400)</u>	<u>\$3,297,963</u>	<u>\$0</u>	<u>(\$26,217,363)</u>
<i>Balances as of 06/30/2018</i>	<u>\$62,516,491</u>	<u>\$5,632,044</u>	<u>\$0</u>	<u>\$56,884,447</u>

Notes:

Plan changes - None
 Plan provisions are summarized in Section V.

Assumption changes –
 Discount rate changed from 3.13% as of June 30, 2017 to 5.45% as of June 30, 2018
 Assumptions summarized in Section IV.

Sensitivity of the Net OPEB Liability

1% Decrease (4.45%)	Discount Rate (5.45%)	1% Increase (6.45%)
\$110,257,399	\$56,884,447	\$72,810,597
	Healthcare Cost Trend Rates	
1% Decrease (7.00% decreasing to 4.00%)	(8.00% decreasing to 5.00%)	1% Increase (9.00% decreasing to 6.00%)
\$47,033,802	\$56,884,447	\$69,656,515

FINANCIAL STATEMENT DISCLOSURE (cont.)

2.) Fiscal Year Ending June 30, 2019 (Estimated)

Changes in Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Non Trust Assets (c)	Net OPEB Liability (c)
<i>Balances as of 06/30/2018</i>	<u>\$62,516,491</u>	<u>\$5,632,044</u>	<u>\$0</u>	<u>\$56,884,447</u>
Changes for the year:				
Service Cost	\$2,051,470			\$2,051,470
Interest	\$3,476,668			\$3,476,668
Difference between expected and actual experience	\$0	\$0		\$0
Contributions - employer	\$0	\$1,000,000	\$1,572,666	(\$2,572,666)
Projected Investment Income		\$334,196		(\$334,196)
Changes in Benefit Terms	\$0			\$0
Changes in assumptions	\$0			\$0
Benefit Payments	(\$1,572,666)	\$0	(\$1,572,666)	\$0
Administration Expenses		\$0		\$0
Net Changes	<u>\$3,955,472</u>	<u>\$1,334,196</u>	<u>\$0</u>	<u>\$2,621,276</u>
<i>Balances as of 06/30/2019</i>	<u>\$66,471,963</u>	<u>\$6,966,240</u>	<u>\$0</u>	<u>\$59,505,723</u>

Notes:

Plan changes - None
 Plan provisions are summarized in Section V.

Assumption changes – None
 Assumptions summarized in Section IV.

Sensitivity of the Net OPEB Liability

1% Decrease (4.45%)	Discount Rate (5.45%)	1% Increase (6.45%)
\$71,654,621	\$59,505,722	\$49,942,733
	Healthcare Cost Trend Rates	
1% Decrease (6.50% decreasing to 4.00%)	(7.50% decreasing to 5.00%)	1% Increase (8.50% decreasing to 6.00%)
\$48,660,165	\$59,505,722	\$73,604,676

Section IV

Actuarial Assumptions and Methodology

The following pages detail the assumptions used in the calculations.

ACTUARIAL ASSUMPTIONS AND METHODOLOGY

1. **Discount Rate:** A discount rate of 5.45% was used in the final calculation for the fiscal year ending June 30, 2018. The discount rate was based on a blend of the long-term asset return and the Bond Buyer's 20 Bond Index.

A discount rate of 3.13% was used as of June 30, 2017. The discount rate was based on the S&P Municipal Bond 20 Year High Grade Index as of June 30, 2017

2. **Mortality:** RPH-2014 Total Dataset mortality table with mortality improvements projected by Scale MP-2017 on a generational basis.

3. **Retirement Rates:**

Group 1

<u>Age</u>	<u>Male</u>	<u>Female</u>
50	3.0%	3.0%
55	3.5%	5.0%
60	9.0%	7.5%
65	20.0%	20.0%
70+	100.0%	100.0%

Group 4

<u>Age</u>	<u>Unisex</u>
50	6.0%
55	25.0%
60	20.0%
65	50.0%
70+	100.0%

Teachers-Males/ Females

<u>Age</u>	<u><20</u>	<u>20-29</u>	<u>30+</u>
55	5.0% / 3.0%	3.0% / 3.0%	6.0% / 5.0%
60	10.0% / 10.0%	25.0% / 20.0%	40.0% / 35.0%
62	20.0% / 12.0%	35.0% / 30.0%	35.0% / 35.0%
65	25.0% / 25.0%	40.0% / 40.0%	35.0% / 35.0%
70	100.0% / 100.0%	100.0% / 100.0%	100.0% / 100.0%

4. **Disability Rates:**

	<u>Group 1 and 2</u>	<u>Group 4</u>	<u>Teachers</u>
<u>Age</u>	<u>Rate</u>	<u>Rate</u>	<u>Rate</u>
20	0.01%	0.20%	0.00%
25	0.01%	0.20%	0.01%
30	0.031%	0.40%	0.01%
35	0.05%	0.70%	0.01%
40	0.08%	0.70%	0.01%
45	0.10%	1.00%	0.03%
50	0.14%	1.00%	0.05%
55	0.17%	0.90%	0.08%
60	0.17%	0.90%	0.10%

ACTUARIAL ASSUMPTIONS AND METHODOLOGY (cont.)

5. Termination Rates:

Group 1

<u>Age</u>	<u>Years of Service</u>		
	0	5	10+
20	27.0%	27.0%	27.0%
30	23.0%	10.0%	4.5%
40	16.0%	8.0%	3.0%
50	18.0%	6.0%	3.0%

Group 4

<u>Years of Service</u>	<u>Rate</u>
5	4.5%
10	3.0%
15	2.5%
20+	4.0%

Teachers-Males/ Females

<u>Age</u>	<u>Years of Service</u>		
	<u>0-4</u>	<u>5-9</u>	<u>10+</u>
20	13.0% / 10.0%	5.5% / 7.0%	1.5% / 5.0%
30	15.0% / 15.0%	5.4% / 8.8%	1.5% / 4.5%
40	13.3% / 10.5%	5.2% / 5.0%	1.7% / 2.2%
50	16.2% / 9.8%	7.0% / 5.0%	2.3% / 2.0%

6. Health Care Trend Rates:

It was assumed that health care costs would increase in accordance with the trend rates in the following table:

<u>Year</u>	<u>Medical Rates</u>	<u>Year</u>	<u>Medical Rates</u>
	2017		8.0%
2018	7.5%	2022	5.5%
2019	7.0%	2023+	5.0%
2020	6.5%		

7. Participation Rate:

It is assumed that 100% current active employees will enroll in retiree medical and life insurance coverage.

8. Percent Married:

It was assumed that 65% of employees who elect retiree health care coverage for themselves would also elect coverage for their spouse upon retirement. It was assumed that male spouses are three years older than their wives and female spouses are three years younger than the retiree. For current retirees, actual census information was used.

ACTUARIAL ASSUMPTIONS AND METHODOLOGY (cont.)

9. **Actuarial Value of Assets:** Market Value of Assets were used.
10. **Per Capita Claims Cost:** Per Capita Claim Costs were developed by applying morbidity aging factors to the average premium rates reflecting the demographic characteristics of the insured group. Below are the annual per capita claim costs used:

<u>Age</u>	<u>Male</u>	<u>Female</u>
45	5,428	6,814
50	6,516	7,517
55	7,912	8,210
60	9,542	9,147
64	10,655	9,977
65	4,327	4,051
70	4,778	4,476
75	5,275	4,943
80	5,545	5,192

Assumed 100% of participants hired after 1986 are eligible for Medicare and elect a Medicare Plan at age 65; and 85% of participants hired before 1986 are eligible for Medicare and elect a Medicare Plan at age 65. 85% of retirees under age 65 are assumed to elect a Medicare plan at age 65. Retirees over age 65 are assumed to remain in the plan currently elected.

11. **Administrative expenses:** Included in premiums used.
12. **Participant Salary Increases:** 3.00% annually
13. **Payroll Growth Rate:** 2.50% annually
14. **High Cost Plan Excise Tax:** Effective in 2020. The law apply a 40% tax to the cost of plan benefits in excess of statutory thresholds, which are \$10,200 for single coverage and \$27,500 for family coverage for Medicare eligible retirees, and \$11,850 for single coverage and \$30,950 for family coverage for retirees who are between ages 55 and 65. We assume the thresholds will start to increase in 2018 at the rate of 2.69%. The plan costs for pre 65 and post 65 benefits are based on the plans' premium costs adjusted for aging and trended at the health care trend rates shown above.
15. **Inflation Rate:** 2.00% annually

ACTUARIAL COST METHOD

An Actuarial Cost Method develops an orderly allocation of the actuarial present value of benefits payments over the working lifetime of the participants in the plan. The actuarial present value of benefits allocated to a particular fiscal year is called the Normal Cost. The actuarial present value of benefits allocated to all periods prior to a valuation date is called the Actuarial Accrued Liability. The Unfunded Actuarial Accrued Liability is amortized over future years in accordance with the employer's established accounting policy.

The Entry Age Actuarial Cost Method is used in this valuation. Under this method, the Actuarial Present Value of Projected Benefits of each individual included in the Actuarial Valuation is allocated on a level basis over future earnings of the individual between entry age and assumed exit age(s). The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost. The portion of this Actuarial Present Value not provided for at a valuation date by the Actuarial Present Value of future Normal Costs is called the Actuarial Accrued Liability.

ADDITIONAL COMMENTS

-The values in this valuation represent a closed group and do not reflect new entrants after the census collection date.

Section V

Plan Provisions

PLAN PROVISIONS

- a. Plan Types:** **Medical**
The Town participates in the Scantic Valley Regional Health Trust. Medical and prescription drug benefits are provided to eligible retirees. Retirees have their choice of a variety of plans offered by Blue Cross Blue Shield of Massachusetts, Health New England, and Tufts Health Plan.
- b. Eligibility:** Police and Fire: Age 45 with 10 years of service, or any age with 20 years of service.
All Others: Age 55 with 10 years of service, or any age with 20 years of service.
- c. Benefit/Cost Sharing:** The Town covers 70% of the health premium for all plans except the Blue Care Elect PPO and the Medicare plans, for which they pay 50%.
- d. Spouse Benefit:** Yes, the Town provides medical coverage for spouses. Spouses pay the same percentage as retirees.
- e. Surviving Spouse Benefit:** Yes, the Town provides medical coverage for surviving spouses. Surviving spouses pay the same percentage of the medical premium as they would if the retiree were still alive.

f. Annual Medical Premiums:

As of July 1, 2017:

Blue Cross Blue Shield

Individual: \$ 8,496.00

Family: \$ 21,072.00

Health New England

Individual: \$ 6,600.00

Family: \$ 16,452.00

Tufts HMO

Individual: \$ 8,280.00

Family: \$ 20,664.00

Blue Care Elect PPO

Individual: \$ 15,492.00

Family: \$ 33,684.00

As of January 1, 2017:

Medicare Plans

Medex III: \$ 4,464.00 per person covered

Managed Blue for Seniors: \$ 4,159.00 per person covered

HNE Mediwrap: \$ 4,536.00 per person covered

Tufts Medicare Supplement: \$ 4,260.00 per person covered

Tufts Preferred HMO: \$ 3,552.00 per person covered

BCBS Medicare HMO: \$ 4,281.96 per person covered

HNE Secure Freedom POS: \$ 4,560.00 per person covered

Section VI
Appendices

APPENDIX - A.

ACTIVE EMPLOYEES BY AGE AND SERVICE

AS OF JULY 1, 2018

<u>Age</u>	<u>Service</u>									<u>Total</u>
	<u>0 - 4</u>	<u>5 - 9</u>	<u>10 - 14</u>	<u>15 - 19</u>	<u>20 - 24</u>	<u>25 - 29</u>	<u>30 - 34</u>	<u>35 - 39</u>	<u>40+</u>	
0 - 19	0	0	0	0	0	0	0	0	0	0
20 - 24	3	0	0	0	0	0	0	0	0	3
25 - 29	18	3	2	0	0	0	0	0	0	23
30 - 34	8	13	1	1	0	0	0	0	0	23
35 - 39	15	14	9	8	0	0	0	0	0	46
40 - 44	7	12	14	9	3	0	0	0	0	45
45 - 49	12	9	14	8	8	1	0	0	0	52
50 - 54	10	9	17	6	7	8	0	0	0	57
55 - 59	13	12	16	12	9	6	6	2	0	76
60 - 64	3	8	9	15	11	3	2	1	1	53
65 - 69	2	2	3	3	5	3	1	0	1	20
70 - 74	0	0	0	1	1	0	3	0	0	5
75 - 79	0	0	0	0	0	0	0	1	0	1
80 - 84	0	0	0	0	0	0	0	0	0	0
85 and Over	0	0	0	0	0	0	0	0	0	0
Total	91	82	85	63	44	21	12	4	2	404

APPENDIX - B.

RECONCILIATION OF TOTAL OPEB LIABILITY

a. 7/1/2015 Actuarial Accrued Liability	\$60,309,864
b. 2015 Normal Cost	\$2,539,934
c. Interest Rate	4.00%
d. Interest on (a. + b.)	\$2,513,992
e. 2015 Expected Benefit Payments	(\$1,371,655)
f. Interest on e.	<u>(\$27,434)</u>
g. 7/1/2016 Expected Actuarial Accrued Liability (a. + b. + d. + e. + f.)	\$63,964,701
h. 2016 Normal Cost	\$2,603,432
i. Interest Rate	4.00%
j. Interest on (g. + h.)	\$2,662,725
k. 2016 Expected Benefit Payments	(\$1,555,622)
l. Interest on k.	<u>(\$31,112)</u>
m. 7/1/2017 Expected Actuarial Accrued Liability	\$67,644,124
Change to GAS 75	
Change in Actuarial Cost Method	\$5,020,677
Change in Discount Rate	<u>\$12,771,090</u>
Total	\$17,791,767
n. 7/1/2017 Total OPEB Liability	\$85,435,891

APPENDIX – C

PROJECTED BENEFIT PAYMENTS

<u>Year</u>	<u>Amount</u>	<u>Accumulated</u>	<u>Year</u>	<u>Amount</u>	<u>Accumulated</u>	<u>Year</u>	<u>Amount</u>	<u>Accumulated</u>
2017	\$ 1,350,568	\$ 1,350,568	2047	\$ 7,255,858	\$ 144,391,195	2077	\$ 3,876,126	\$ 329,260,855
2018	\$ 1,572,667	\$ 2,923,235	2048	\$ 7,353,153	\$ 151,744,348	2078	\$ 3,633,822	\$ 332,894,677
2019	\$ 1,805,070	\$ 4,728,305	2049	\$ 7,406,319	\$ 159,150,667	2079	\$ 3,387,970	\$ 336,282,647
2020	\$ 2,009,181	\$ 6,737,486	2050	\$ 7,394,127	\$ 166,544,794	2080	\$ 3,140,252	\$ 339,422,899
2021	\$ 2,246,744	\$ 8,984,230	2051	\$ 7,373,330	\$ 173,918,124	2081	\$ 2,892,959	\$ 342,315,858
2022	\$ 2,477,901	\$ 11,462,131	2052	\$ 7,347,115	\$ 181,265,239	2082	\$ 2,648,144	\$ 344,964,002
2023	\$ 2,701,711	\$ 14,163,842	2053	\$ 7,332,070	\$ 188,597,309	2083	\$ 2,407,456	\$ 347,371,458
2024	\$ 2,910,281	\$ 17,074,123	2054	\$ 7,193,239	\$ 195,790,548	2084	\$ 2,173,049	\$ 349,544,507
2025	\$ 3,149,644	\$ 20,223,767	2055	\$ 7,095,193	\$ 202,885,741	2085	\$ 1,946,730	\$ 351,491,237
2026	\$ 3,378,581	\$ 23,602,348	2056	\$ 6,996,018	\$ 209,881,759	2086	\$ 1,729,847	\$ 353,221,084
2027	\$ 3,599,630	\$ 27,201,978	2057	\$ 6,905,022	\$ 216,786,781	2087	\$ 1,523,656	\$ 354,744,740
2028	\$ 3,859,950	\$ 31,061,928	2058	\$ 6,828,505	\$ 223,615,286	2088	\$ 1,329,107	\$ 356,073,847
2029	\$ 4,109,506	\$ 35,171,434	2059	\$ 6,731,272	\$ 230,346,558	2089	\$ 1,147,476	\$ 357,221,323
2030	\$ 4,307,231	\$ 39,478,665	2060	\$ 6,654,213	\$ 237,000,771	2090	\$ 979,624	\$ 358,200,947
2031	\$ 4,520,106	\$ 43,998,771	2061	\$ 6,571,770	\$ 243,572,541	2091	\$ 826,140	\$ 359,027,087
2032	\$ 4,793,142	\$ 48,791,913	2062	\$ 6,476,643	\$ 250,049,184	2092	\$ 687,560	\$ 359,714,647
2033	\$ 4,980,524	\$ 53,772,437	2063	\$ 6,380,371	\$ 256,429,555	2093	\$ 564,118	\$ 360,278,765
2034	\$ 5,202,133	\$ 58,974,570	2064	\$ 6,270,981	\$ 262,700,536	2094	\$ 455,894	\$ 360,734,659
2035	\$ 5,428,988	\$ 64,403,558	2065	\$ 6,150,726	\$ 268,851,262	2095	\$ 362,559	\$ 361,097,218
2036	\$ 5,671,599	\$ 70,075,157	2066	\$ 6,019,148	\$ 274,870,410	2096	\$ 283,371	\$ 361,380,589
2037	\$ 5,891,808	\$ 75,966,965	2067	\$ 5,875,109	\$ 280,745,519	2097	\$ 217,484	\$ 361,598,073
2038	\$ 6,157,314	\$ 82,124,279	2068	\$ 5,719,690	\$ 286,465,209	2098	\$ 163,789	\$ 361,761,862
2039	\$ 6,362,096	\$ 88,486,375	2069	\$ 5,553,250	\$ 292,018,459	2099	\$ 120,935	\$ 361,882,797
2040	\$ 6,497,797	\$ 94,984,172	2070	\$ 5,375,746	\$ 297,394,205	2100	\$ 87,466	\$ 361,970,263
2041	\$ 6,718,749	\$ 101,702,921	2071	\$ 5,188,495	\$ 302,582,700	2101	\$ 61,885	\$ 362,032,148
2042	\$ 6,887,210	\$ 108,590,131	2072	\$ 4,990,971	\$ 307,573,671	2102	\$ 42,823	\$ 362,074,971
2043	\$ 6,964,170	\$ 115,554,301	2073	\$ 4,784,172	\$ 312,357,843	2103	\$ 28,983	\$ 362,103,954
2044	\$ 7,084,790	\$ 122,639,091	2074	\$ 4,568,525	\$ 316,926,368	2104	\$ 19,172	\$ 362,123,126
2045	\$ 7,245,671	\$ 129,884,762	2075	\$ 4,344,826	\$ 321,271,194	2105	\$ 12,384	\$ 362,135,510
2046	\$ 7,250,575	\$ 137,135,337	2076	\$ 4,113,535	\$ 325,384,729			

APPENDIX - D
SCHEDULE A.
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total OPEB Liability						
Service Cost	\$2,051,470 *	\$3,945,669				
Interest	\$3,476,668 *	\$2,893,255				
Changes in Benefit Terms	\$0 *	\$0				
Differences between expected and actual experience	\$0 *	\$3,724,747				
Changes in assumptions and other inputs	\$0 *	(\$32,132,505)				
Benefit Payments	<u>(\$1,572,666) *</u>	<u>(\$1,350,566)</u>				
Net Changes in Total OPEB Liability	<u>\$3,955,472 *</u>	<u>(\$22,919,400)</u>				
Total OPEB Liability - Beginning	<u>\$62,516,491 *</u>	<u>\$85,435,891</u>				
Total OPEB Liability - Ending	<u><u>\$66,471,963 *</u></u>	<u><u>\$62,516,491</u></u>	<u><u>\$85,435,891</u></u>			
Plan Fiduciary Net Position						
Contributions Employer	\$2,572,666 *	\$4,525,566				
Differences between expected and actual experience	\$0	\$218				
Projected Investment Income	\$334,196 *	\$122,745				
Benefit Payments	(\$1,572,666) *	(\$1,350,566)				
Administration Expenses	\$0 *	\$0				
Net Changes in plan Fiduciary Net Position	<u>\$1,334,196 *</u>	<u>\$3,297,963</u>				
Plan Fiduciary Net Position - Beginning	<u>\$5,632,044 *</u>	<u>\$2,334,081</u>				
Plan Fiduciary Net Position - Ending	<u><u>\$6,966,240 *</u></u>	<u><u>\$5,632,044</u></u>	<u><u>\$2,334,081</u></u>			
Net OPEB Liability - Ending	59,505,722 *	\$56,884,447	\$83,101,810			
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	10.48% *	9.01%				
Covered Employee Payroll	N/A *	N/A				
Net OPEB Liability as a percentage of covered Employee Payroll	N/A *	N/A				
Notes:						
Assumption changes:						
Discount Rate	5.45% *	5.45%	3.13%			
Plan changes:	None	None				

* Estimated

APPENDIX - D
SCHEDULE B.
SCHEDULE OF ACTUARIAL DETERMINED CONTRIBUTIONS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarial Determined Contribution	\$3,569,590 *	\$3,495,762				
Contributions in relation to the Actuarially Determined Contribution	<u>\$2,572,666 *</u>	<u>\$4,525,566</u>				
Contribution Deficiency / (Excess)	\$996,924 *	(\$1,029,804)				
Covered Employee Payroll	N/A *	N/A				
Contribution as a percentage of Covered Employee Payroll	N/A *	N/A				

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of Payroll
Remaining amortization period	28 years
Asset Valuation	Market Value
Discount Rate	7.25%
Inflation	2.50%
Healthcare Trend rates	8.0% initially, decreasing to an ultimate rate of 5.0% in 2020
Salary Increases	3.50%
Payroll Growth	2.50%
Investment Rate of Return	7.25%
Average Assumed Retirement Age	62
Mortality	RPH-2014 Total Dataset with Scale MP-2017

* *Estimated*

APPENDIX - E
LONG-TERM EXPECTED RATE OF RETURN ON OPEB PLAN INVESTMENTS

The following information was provided by the Plan's investment advisor:

Asset Class	Long-Term Real Returns
Commodities	5.10%
Non US Debt Emerging	6.10%
Non US Equity Developed	2.70%
Real Estate	6.50%
US Corporate Bond Core	4.60%
US Corporate Bonds High Yield	5.60%
US Equity Large Cap	7.30%
US Equity Small/Mid Cap	7.80%
Inflation	0.00%

The following was the Plan's asset allocation as of **June 30, 2018**, as provided by the Plan's investment advisor:

Asset Class	Target Allocation
Commodities	1.73%
Non US Debt Emerging	7.73%
Non US Equity Developed	6.78%
Real Estate	2.72%
US Corporate Bond Core	17.57%
US Corporate Bonds High Yield	5.00%
US Equity Large Cap	28.27%
US Equity Small/Mid Cap	16.35%
Inflation	13.84%
Total	100%

For the year ending **June 30, 2018**, the long-term expected rate of return on OPEB plan investments is based on the above real rates of return, the asset allocation percentages, and a **2.00%** inflation rate.

Money-Weighted Rate of Return

	Plan Investments	Months Invested	Period Weight (c)
	(a)	(b)	
<i>Balance as of 07/01/2017</i>	\$2,334,081	12	1.00
<i>Contribution 03/06/2018</i>	\$2,000,000	3	0.32
<i>Contribution 06/18/2018</i>	\$1,000,000	0	0.04
<i>Contribution 06/30/2018</i>	\$175,000	0	0.00
<i>Balance as of 06/30/2018</i>	\$5,632,044		
Money-Weighted Rate of Return	4.10%		

APPENDIX – F

GOVERNMENT ACCOUNTING STANDARD NO. 75

The Government Accounting Standards Board (“GASB”) issued Statement No. 43, “Financial Reporting for Postemployment Benefit Plans Other Than Pensions Plans” in April 2004 and Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions” in June 2004. The statements introduced accrual accounting for postretirement benefits other than pensions.

GASB issued Statements No. 74 and 75 in June 2015, which are updates to Statements 43 and 45, respectively. GAS 74 and 75 are effective for fiscal years beginning after June 15, 2016 and June 15, 2017, respectively, and will require numerous changes; including new terminology, accelerated recognition of plan cost, and extended disclosure items. In addition, the valuation discount rate assumption must reflect the yield or index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher to the extent that plan assets (plan’s fiduciary net position) are projected to be insufficient to make projected benefit payments.

GAS 74/75 Key changes:

- **Consistency:** New standards parallel the recent changes to pension plan accounting standards.
- **Standardization:** The Entry Age Normal (EAN) actuarial cost method will now be the only method allowed, discarding the acceptance of five other methods. The discount rate used for “pay as you go” plans will be based on a 20-year municipal bond index rate.
- **Philosophy:** More focus on plan liability than plan cost. Recognition of liability is accelerated by eliminating the provision that allowed for the 30-year amortization of the plan’s unfunded liability.
- **Reporting:** Net OPEB liability will now be on government-wide financial statement balance sheets. Information disclosed and included in Required Supplementary Information is expanded.
- **Measurement:** OPEB Actuarial Valuations must be performed at least every two years regardless of the size of the plan. GASB 45 allowed plans with less than 200 participants to have valuations performed at least every three years.
- **Timing:** GAS 74 is effective for fiscal years beginning after June 15, 2016 and GAS 75 is effective for fiscal years beginning after June 15, 2017.

The **OPEB Expense** (and Deferred Inflows and Outflows of Resources) results mostly from changes to the Net OPEB Liability. The change to the liability attributable to benefit changes is fully recognized in the Net OPEB expense the year the change is made. Changes to the Net OPEB liability due to plan experience, assumption changes, and investment experience will be amortized over the average service of plan participants, which is likely much shorter than the 30 years allowed under GAS 45. Deferred outflows and inflows of resources will be established for amounts not recognized in the current year’s expense.

APPENDIX – F

GOVERNMENT ACCOUNTING STANDARD NO. 75 (CONT.)

The **Discount Rate** for plans with assets will be determined using a depletion date test. The test will determine a “cross-over” date when the assets are estimated to be depleted. For this purpose, the projection of future contributions to the Trust will be based on a written funding policy and/or experience over the most recent five years. A single equivalent discount rate will then be developed by discounting the benefits prior to the cross-over date using the trust’s long term expected rate of return and discounting the benefits after the cross-over date using the market rate for high-quality 20-year municipal bonds. For plans that are funded on a pay-as-you-go basis, the discount rate will equal the market rate for high-quality 20-year municipal bonds as of the measurement date.

The **Long-Term Expected Rate of Return** on OPEB plan assets will consider the assumed asset allocation of the plan’s portfolio, and the long-term expected real rate of return for each major asset class.

The use of unadjusted premiums as the basis of projected **Per Capita Claims Costs** by employers in “community rated” plans has been effectively eliminated. Projections of benefit payments are required to be based on claims costs, or age-adjusted premiums approximating claims costs, in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board. The current Actuarial Standards of Practice significantly limit the situations in which age adjustments may be disregarded in developing per capita claims costs.

Notes to financial statements

This Statement requires that notes to financial statements of single and agent employers include:

- For the current year, sources of changes in the net OPEB liability.
- Significant assumptions and other inputs used to calculate the total OPEB liability.
- The date of the actuarial valuation used to determine the total OPEB liability, information about changes of assumptions or other inputs and benefit terms.

Required supplementary information

This Statement requires single and agent employers to present in required supplementary information the following information, determined as of the measurement date, for each of the 10 most recent fiscal years:

- Sources of changes in the net OPEB liability.
- The components of the net OPEB liability and related ratios, including the OPEB plan’s fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percentage of covered-employee payroll.
- If an actuarially determined contribution is calculated for a single or agent employer, the employer is required to present in required supplementary information a schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the OPEB plan, and related ratios.

Guidelines

GASB is scheduled to issue implementation guidelines for GAS No.74 and No.75 in March and November of 2017, respectively.

APPENDIX – G

GLOSSARY
GAS 45 / (GAS 75)

Actuarial Accrued Liability / (Total OPEB Liability). The portion, as determined by a particular Actuarial Cost Method, of the present value of benefits which is not provided for by future Normal Costs.

Actuarial Cost Method. A procedure for determining the Actuarial Present Value of Total Projected Benefits 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.

Actuarially Equivalent. Of equal Actuarial Present Value, determined as of a given date with each value based on the same set of Actuarial Assumptions.

Actuarial Present Value of Total Projected Benefits. The present value, as of the valuation date, of the cost of future benefits to be paid to employees, retirees, and covered dependents, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. It is the amount that would have to be invested on the valuation date so that the amount invested plus investment earnings will provide sufficient assets to pay total projected benefits when due.

Annual OPEB Cost / (OPEB Expense). The 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) / (NA). The employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters defined in GAS 45.

Investment Return Assumption / (Discount Rate). The rate used to adjust a series of future benefit payments to reflect the time value of money.

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 and technological developments.

Net OPEB Obligation / (OPEB Liability). **GAS 45:** The cumulative difference since the effective date of GAS 45 between the annual OPEB cost and the employer's contributions to the plan. **GAS 75:** The difference between the Total OPEB Liability and the OPEB Plan's fiduciary net position as of the measurement date

Normal Cost / (Service Cost). The portion of the Actuarial Present Value of plan benefits which is allocated to a valuation year by the Actuarial Cost Method.

OPEB. Postemployment benefits other than pension benefits.

Pay-As-You-Go. The amount of the benefits paid out to plan participants during the year.

Per Capita Claims Cost. The current average annual cost of providing postretirement health care benefits per individual.

Supplemental Cost / (NA). The amount of the Annual Required Contribution attributable to the amortization of the unfunded Actuarial Accrued Liability.