

TOWN OF FRAMINGHAM
RETIREE MEDICAL ACTUARIAL
VALUATION

REPORT ON COMPLIANCE WITH
GOVERNMENT ACCOUNTING STANDARDS BOARD
STATEMENT #45
ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYER
FOR POSTEMPLOYMENT
BENEFITS OTHER THAN PENSIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

PREPARED: October 2014

00864893-2

DANZIGER &
MARKHOFF LLP
Attorneys at Law

October 2014

Town of Framingham
150 Concord Street
Framingham, MA 01702

Dear Sir/Madam:

This report was prepared to provide management with the accounting for the Government Accounting Standards Board Statement Number 45 – Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45) for the Retiree Health Valuation Under GASB #45 for the fiscal year ended June 30, 2015.

Our results and accompanying disclosures reflect plan provisions in effect for the plan year ended June 30, 2015. The Annual OPEB Cost for the Town of Framingham is \$22,347,706.

In conducting the valuation, we relied on information supplied to us by the Town of Framingham. This information included participant data, the terms of the written and unwritten plan, premium rates and other policies and practices of plan. We have relied on this information as accurate, and applied estimates as necessary.

The discount rate used for this year is 4.0%. As requested, select results based on 8.0% have also been included on page 2B, for illustrative purposes. The 8% results may not be relied upon for GASB #45 disclosure purposes; the plan is not “fully” pre-funded at this time.

To the best of our knowledge and belief, this valuation was conducted in accordance with generally accepted actuarial principles and practices and in accordance with our understanding of GASB #45 and the implementation guidelines published by the Government Accounting Standards Board. The employer may modify the presentation of these disclosures as needed. I am an Enrolled Actuary who satisfies the Qualifications Standards for Actuaries of the AAA that became effective January 1, 2008.

Very truly yours,



Edward A. Echeverria, FSPA, MAAA, CPC, EA
Senior Actuary

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TOWN OF FRAMINGHAM
RETIREE HEALTH VALUATION UNDER GASB #45

EXECUTIVE SUMMARY OF RESULTS

Valuation Date	<u>July 1, 2014</u>
Number of Plan Members:	
Active Participants	1,695
Retired Participants	<u>1,495</u>
Total	3,190
Average Age of Actives	46 yrs.
Average Credited Service of Actives	11 yrs.
Current Covered Payroll	\$ 111,670,736
Market value of OPEB Trust Assets as of July 1	\$ 2,516,635
Unfunded Accrued Liability	\$ 288,645,545
Annual Required Contribution (ARC)	\$ 21,976,575
OPEB Cost for the Year	\$ 22,347,706

TOWN OF FRAMINGHAM
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES

<u>VALUATION RESULTS</u> - (Cost to Town)	(EPBO) Projected <u>Benefits</u>	(APBO) Proj. Unit Credit Accrued <u>Liability</u>
1. Actuarial present values as of July 1, 2014:		
(a) Actives	\$279,520,191	\$133,463,832
(b) Retirees & Beneficiaries	<u>\$155,181,713</u>	<u>\$155,181,713</u>
(c) Total	\$434,701,904	\$288,645,545
2. Accrued liability as of July 1, 2014	\$288,645,545	
3. Actuarial value of assets, July 1, 2014	\$ 2,516,635	
4. Unfunded accrued liability, July 1, 2014	\$286,128,910	
5. Normal cost As of July 1, 2014	\$ 10,815,426	
6. Amortization of unfunded accrued liability (level percentage of payroll/open, over 30 years)	\$ 10,315,896	
7. Interest (rounded) on Normal Cost (\$432,617) and Amortization (\$412,636)	\$ 845,253	
8. Annual Required Contribution (ARC) (5+6+7)	\$ 21,976,575	

TOWN OF FRAMINGHAM
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES
RESULTS BY FUND (4%)

	<u>Town</u>	<u>Sewer</u>	<u>Water</u>	<u>School</u>	<u>Total</u>
Active	527	25	33	1110	1695
Retirees	495	6	5	989	1495
Total	1022	31	38	2099	3190
Accrued Liability	121,026,200	2,460,216	3,444,737	161,714,392	288,645,545
Assets (subt.)	1,055,200	21,450	30,034	1,409,951	2,516,635
Unfunded Accrued Liability	119,971,000	2,438,766	3,414,703	160,304,441	286,128,910
Normal Cost	3,340,848	157,472	252,940	7,064,166	10,815,426
Amortization of UAL	4,325,352	87,926	123,111	5,779,507	10,315,896
Interest to end of year	306,648	9,816	15,042	513,747	845,253
Annual Required Contribution	7,972,848	255,214	391,093	13,357,420	21,976,575

TOWN OF FRAMINGHAM
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES
COMPARISON OF 4.0% VS. 8.0% DISCOUNT RATE

	<u>4.00%</u>	<u>8.00%</u>
Active	1,695	1,695
Retirees & Spouses	1,495	1,428
Total	3,190	3,190
Accrued Liability	288,645,545	164,680,490
Assets (subt.)	2,516,635	2,516,635
Unfunded Accrued Liability	286,128,910	162,163,855
Normal Cost	10,815,426	4,390,867
Amortization of UAL	10,315,896	9,031,682
Interest to end of year	845,253	1,073,804
Annual Required Contribution	21,976,575	14,496,353

Note: Because only about \$700,000 of the Annual Cost is being "pre-funded", 8.0% is too high an interest rate to satisfy the GASB #45 requirements at this time.

TOWN OF FRAMINGHAM
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES

DEVELOPMENT OF THE OPEB COST
FOR THE YEAR ENDING JUNE 30, 2015

Actual contribution information is included below.

<u>Contribution rates:</u> Plan Members	Varies by employee class (See Summary of Plan Provisions)
Town:	Actuarially determined, equals the balance not paid by plan members
Annual required contribution (ARC)	\$ 21,976,575
Interest on net OPEB obligation	3,761,443
Adjustment to annual required contribution (-)	3,390,312
Annual OPEB cost	\$ 22,347,706
Contributions made*	\$ 12,685,000
Increase in net OPEB obligation	\$ 9,662,706
Net OPEB obligation-beginning of year	\$ <u>94,036,071</u>
Net OPEB obligation-end of year	\$ <u>103,698,777</u>

*Contributions made include proj. Medical, Dental, Life. Ins premium payments of \$11,985,000 and proj. OPEB Trust contributions of \$700,000.

TOWN OF FRAMINGHAM
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES

DEVELOPMENT OF THE OPEB COST
FOR THE YEAR ENDING JUNE 30, 2016

Actual contribution information is included below.

<u>Contribution rates:</u>	Varies by employee class
Plan Members	(See Summary of Plan Provisions)
Town:	Actuarially determined, equals the balance not paid by plan members
Annual required contribution (ARC)	\$ 23,411,718
Interest on net OPEB obligation	4,147,951
Adjustment to annual required contribution (-)	3,888,233
Annual OPEB cost	\$ 23,671,436
Contributions made*	\$ 13,165,000
Increase in net OPEB obligation	\$ 10,506,436
Net OPEB obligation-beginning of year	\$ <u>103,698,777</u>
Net OPEB obligation-end of year	\$ <u>114,205,213</u>

*Contributions made include proj. Medical, Dental, Life. Ins premium payments of \$12,465,000 and proj. OPEB Trust contributions of \$700,000.

TOWN OF FRAMINGHAM
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES

DEVELOPMENT OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
AND FUNDED RATIO (actual)

Actuarial accrued liability (a)	\$ 288,645,545
Actuarial value of plan assets (b)	\$ 2,516,635
Unfunded actuarial accrued liability (a – b)	\$ 286,128,910
Funded ratio (b / a)	0.9%
Covered payroll (c)	\$ 111,670,636
Unfunded actuarial accrued liability as percentage of covered payroll [(a – b) / c]	256%

TOWN OF FRAMINGHAM
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES

DEVELOPMENT OF OPEB COST AND OPEB OBLIGATION
FOR THE LAST THREE YEARS (actual)

<u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/2013	\$22,589,477	57.1%	\$83,421,437
6/30/2014	\$22,838,955	53.5%	\$94,036,071
6/30/2015	\$22,347,706	56.8%	\$103,698,777

Pre-2015 entries were developed from FYE 2013 OPEB Note and Valuation Report.

TOWN OF FRAMINGHAM
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS (actual)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a) / c]
7/1/2010	\$0	371,530,000	371,530,000	0.0%	113,924,000	326%
7/1/2012	\$0	327,067,000	327,067,000	0.0%	104,423,000	313%
7/1/2014	\$2,516,635	288,645,545	286,128,910	0.9%	111,670,636	256%

Pre-2015 entries were developed from FYE 2013 OPEB Note and Valuation Report.

TOWN OF FRAMINGHAM
RETIREE HEALTH VALUATION UNDER GASB #45

CONSIDERATIONS

NEW STATEMENT

Government Accounting Standards Board Statement No. 45 (GASB #45) was first applied by the Town of Framingham beginning with the fiscal year ended June 30, 2009. GASB #45 establishes standards for the measurement, recognition and display of the expense and liabilities of your retiree medical program (Other Post-Employment Benefits; "OPEB"). As a result, reporting of expense and liabilities will no longer be done under the "pay-as-you-go" approach. Instead of expensing the current year premiums paid, a per capita claims cost will be determined, which will be used to determine a "normal cost", an "actuarial accrued liability", and ultimately the Annual Required Contribution (ARC). The ARC is not "required" to be contributed each year, but in your case, will accumulate as a liability on the Town's financial statements (called the "OPEB Obligation") to the extent that the ARC exceeds the amount of premiums paid in a year. To date, the Town has chosen to partially pre-fund retiree medical and other OPEB benefits in a Trust. To fully pre-fund, would permit the use of a higher discount rate (to reflect higher returns from an equity/bond mix of a Trust, rather than short term returns of the Town's funds), which would reduce liabilities.

PLAN DESIGN

We received detailed employee and dependent data, information on the plans, past and current employer practices, and medical premium cost data.

TOWN OF FRAMINGHAM
RETIREE HEALTH VALUATION UNDER GASB #45

CONSIDERATIONS

For FYE 2015, there are 1,495 retirees plus dependents who are receiving employer subsidized benefits. We reflected known retirements and terminations in our database through June 30, 2014. Where data was missing or inaccurate, we assumed reasonable estimates. In all, we valued 1,695 active employees plus dependents.

Retiree medical coverage is provided through Massachusetts GIC.

Future retirees are assumed to be covered by this existing arrangement as outlined in the materials forwarded by the Town. Those provisions, as they relate to employer liability, can be found in the Summary of Plan Provisions section of this report.

ASSUMPTIONS/RECOGNITION

To establish the per capita claims cost of medical benefits for your group, we used current premium rates provided by the Town as the starting point for our calculations. We then employed a health care trend rate that begins at 8.0% for the first year, decreases by 0.5% per year through year 7 to 5.0% thereafter. This assumption needs to be reviewed periodically. The health care trend rate is a major contributor to widening the gap between pay-as-you-go recognition and GASB #45 recognition. Adjustments were also required to be made to recognize differences between the average age of the 'full' population and the average age of a 'retiree only' population (to develop "age adjusted" current premium rates/equivalents).

TOWN OF FRAMINGHAM
RETIREE HEALTH VALUATION UNDER GASB #45

SUMMARY OF PLAN PROVISIONS

The following is a summary of the current major provisions of the retiree medical program.

1. **MEDICAL BENEFITS**

The Plan is a fully insured plan. Current medical retiree premium rates provided to us by the Town include:

- | | |
|-------------------------------|---|
| a) Pre-age 65 Individual MED: | Ranges from \$457 to \$2,185 per month. |
| b) Pre-age 65 Family MED: | Ranges from \$1,096 to \$1,701 per month. |
| c) Post-age 65 MED: | Ranges from \$267 to \$395 per month. |
| d) Individual Dental: | Generally \$38 per month. |
| e) Family Dental: | Generally \$98 per month. |

Adjustments to these premium rates to reflect the difference between the active/retiree group (for which the current premium rates were based on) and the retiree-only group, were required, in accordance with ASOP 6. The retiree and the spouse are covered under the program. For Town of Framingham, these adjustments were required for the Pre-Medicare liabilities.

2. **MEDICARE PART B PREMIUMS** – Generally, the Town currently pays \$50/mo. toward the premium, as applicable.
3. **LIFE INSURANCE** – Generally, the Town pays 75% toward \$5,000 of coverage.

TOWN OF FRAMINGHAM
RETIREE HEALTH VALUATION UNDER GASB #45

SUMMARY OF PLAN PROVISIONS

4. **ELIGIBILITY:**

Generally, an employee may retire after the earlier of (i) age 55 with at least 10 years of service, and (ii) 20 years of service.

5. **TOWN SUBSIDY:**

The Town will generally 75% - 84% toward medical coverage and 15% toward dental coverage, for both individual and dependent coverage. The Town will generally pay 75% toward \$5,000 life insurance coverage.

TOWN OF FRAMINGHAM
RETIREE HEALTH VALUATION UNDER GASB #45

SUMMARY OF PLAN PROVISIONS

6. **FUNDING POLICY:**

The employer's funding policy is to contribute the current annual premium (net of employee contributions) for all retired participants (i.e., pay-as-you-go), as well as pre-fund a nominal amount (for FYE 2014, \$700,000), toward future retiree medical benefit obligations in an OPEB Trust.

TOWN OF FRAMINGHAM
RETIREE HEALTH VALUATION UNDER GASB #45

ACTUARIAL BASIS

7. Retirement:

The following table illustrates the retirement rates:

A) NON-Police/Fire/Teachers
 (10 years of service required
 at retirement)

<u>Retirement Age</u>	<u>Retirement Rates</u>
50-54	1.0%
55	2.0%
56-57	3.0%
58	5.0%
59	7.0%
60	12.0%
61	20.0%
62	30.0%
63	25.0%
64	22.0%
65	100.0%

B) Teachers
 (10 years of service required
 at retirement)

<u>Retirement Age</u>	<u>Retirement Rates</u>
50-54	1.0%
55	3.0%
56	4.0%
57	7.0%
58	9.0%
59	15.0%
60	18.0%
61	22.0%
62	30.0%
63	30.0%
64	30.0%
65	100.0%

TOWN OF FRAMINGHAM
RETIREE HEALTH VALUATION UNDER GASB #45

ACTUARIAL BASIS

7. Retirement:

The following table illustrates the retirement rates:

C) Police/Fire (10 years of service required at retirement)	<u>Retirement Age (Svc)</u>	<u>Retirement Rates</u>
	45-49	1.0%
	50-52	2.0%
	53	5.0%
	55	8.0%
	55	15.0%
	56-58	10.0%
	59	15.0%
	60-61	20.0%
	62-63	25.0%
	64	30.0%
	65	100.0%

TOWN OF FRAMINGHAM
RETIREE HEALTH VALUATION UNDER GASB #45

ACTUARIAL BASIS

8. Health Care Cost
Trend Rate:

The following table illustrates the assumed health care trend rate for each future year:

<u>Year</u>	<u>(Medical) Assumed Increase</u>
1	8.0%
2	7.5%
3	7.0%
4	6.5%
5	6.0%
6	5.5%
7+	5.0%

Dental: 4% per annum.

9. Marital - Actives:

Wife is assumed to be same age as the husband.
70% of males and 50% of females are assumed
married.

10. Participation Rate:

Medical: 95%, Dental: 45%

11. Inflation Rate:

4.0% per annum.

ASSET VALUATION METHOD: Market value.

AMORTIZATION BASIS:

Level percentage of payroll, Open, over 30 years.
(4% per year increase applied since 2012)