

**Town of Andover**

# June 30, 2013 OPEB Report

**June 3, 2014**

*Presented by:*

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# What is OPEB?

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The Governmental Accounting Standards Board (GASB) has issued two statements of accounting principles for

Other (than pension) Post Employment Benefits  
(OPEB)

Statement 45 for Employers

Statement 43 for Plan Disclosure

# Why OPEB?

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- To require financial reporting provides more complete information of the financial implications of OPEB
  - GASB discovered most governments do not report information needed to assess the long-term financial implications of OPEB.
  - The current pay as you go approach to OPEB does not represent the substance of OPEB.
  
- Provide standards for measurement and disclosure of accrued OPEB obligations and employer's cost of OPEB
  - Most plans financed pay as you go and have had no actuarial valuation.
  - Currently only reported as footnotes, if at all, without any consistency.
  - To achieve consistency in approach in reporting OPEB.
  
- Funding is not required
  - However, funding in an irrevocable trust results in lower liabilities.

# Retiree Health Valuations

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## ➤ Similarities with pension valuations

- Based on retirees currently receiving retiree health benefits and current employees who are expected to retire in the future and be eligible for retiree health benefits
- Apply assumptions to project who will retire, when, and for how long benefits will be paid

## ➤ Differences with pension valuations

- Benefits are not defined for each retiree – determine average claim costs
- Must take into account medical inflation
- Interest assumption is selected based on level of funding
- Pension benefits are typically funded on an actuarial basis – GASB 43 and 45 do not require funding of OPEB

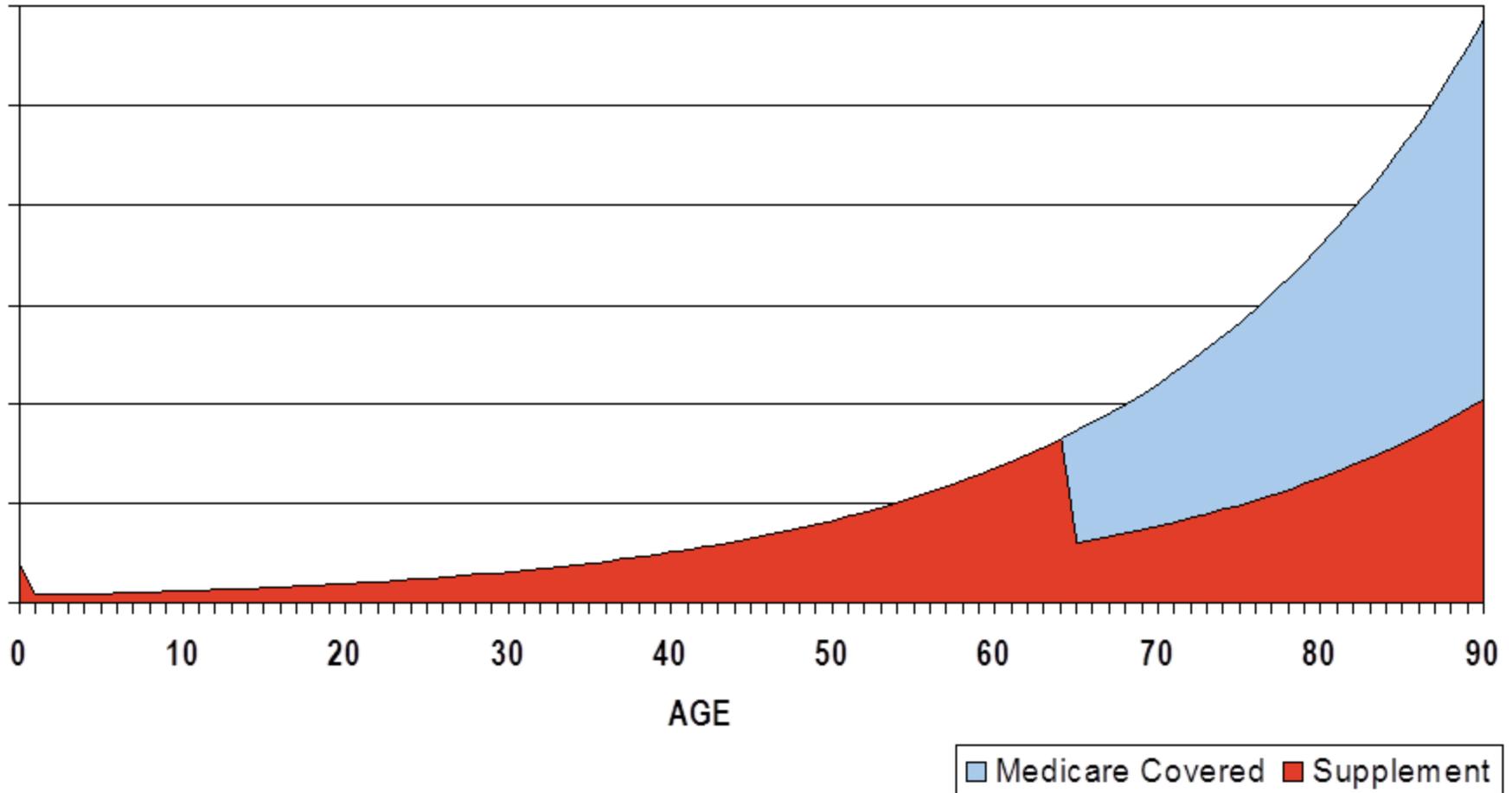
# Necessary Data

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- Premium and enrollment information
- Description of plans and any recent plan changes
- Retiree cost sharing provisions
- Detailed data on active employees enrolled in health plans (sex, date of birth, date of hire, spouse date of birth, plan, coverage tier, number of dependents, police/fire versus teacher versus other)
- Detailed data on retirees and spouses enrolled in health plans (sex, date of birth, spouse date of birth, plan, coverage tier, disabled versus non-disabled)

# Medical Cost is Age Related

Most of person's health benefit cost occurs in last 2 weeks of life



# Basis for Calculating Obligations

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- Use premium and enrollment information to determine initial average cost.
- Generate “claim curves” that reflect initial costs that tend to increase with age, separately for males and females.

# Per Capita Health Costs for 2013 – 2014

- 2013 – 2014 medical and prescription drug claims costs are shown in the table below for retirees and for spouses at selected ages. These costs are net of deductibles and other benefit plan cost sharing provisions.

Age	MIIA							
	Non-Medicare Plans				Medicare Plans			
	Retiree		Spouse		Retiree		Spouse	
	Male	Female	Male	Female	Male	Female	Male	Female
45	\$7,652	\$9,599	\$4,746	\$7,165	N/A	N/A	N/A	N/A
50	9,082	10,345	6,344	8,306	N/A	N/A	N/A	N/A
55	10,786	11,136	8,489	9,615	N/A	N/A	N/A	N/A
60	12,809	12,003	11,364	11,151	N/A	N/A	N/A	N/A
65	15,213	12,931	15,213	12,931	\$3,507	\$2,981	\$3,507	\$2,981
70	17,632	13,935	17,632	13,935	4,065	3,212	4,065	3,212
75	19,001	15,000	19,001	15,000	4,380	3,458	4,380	3,458
80	20,461	16,171	20,461	16,171	4,717	3,728	4,717	3,728

- Weighted Average Annual Retiree Contribution Amount:

*Non-Medicare:*                      \$2,212  
*Medicare:*                              \$916

# Healthcare Cost Trend Assumptions

- Based on the experience of the covered group
- Reflects expected long-term future trends
- The rates shown below are “net” and are applied to the net per capita costs. The trend shown for a particular plan year is the rate that must be applied to that year’s cost to yield the next year’s projected cost.

<b>Year Ending June 30</b>	<b>Non-Medicare MIIA Plans</b>	<b>Medicare MIIA Plans and GIC Plans</b>	<b>Medicare Part B Premium</b>	<b>Administrative</b>
2014	8.5%	7.0%	6.0%	5.0%
2015	8.0%	6.5%	6.0%	5.0%
2016	7.5%	6.0%	6.0%	5.0%
2017	7.0%	5.5%	6.0%	5.0%
2018	6.5%	5.0%	6.0%	5.0%
2019	6.0%	5.0%	6.0%	5.0%
2020	5.5%	5.0%	6.0%	5.0%
2021 & later	5.0%	5.0%	6.0%	5.0%

# Liabilities

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- The stream of benefits is discounted to a present value with an investment return assumption (discount rate).
- GASB specifies that the discount rate to be used depends on level of funding – even though funding is not required.
- Pay-as-you-go – use the rate of return on the employer's assets – 4 ½%.
- Full-funding – use the rate of return expected from the invested assets – 7 ¾%.
- Partially-funding – use a blended rate that reflects the proportionate amounts of plan and employer assets expected to be used – 5 ¾%.

# Funding OPEB

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- Assets set aside to fund OPEB liabilities must be held in a trust or an equivalent arrangement.
- As of June 30, 2013, the Town of Andover had \$1,101,668 in a qualified trust.
- As of January, 2014, the Town had contributed \$402,444 for fiscal 2014.
- The Town has budgeted \$1.4 million for fiscal 2015 increasing by \$100,000 per year thereafter.

# Disclosure Requirements - Terminology

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## **Actuarial Accrued Liability (AAL)**

- The AAL is the portion of the actuarial present value of total projected benefits allocated to years of employment prior to the measurement date.

## **Normal Cost**

- The Normal Cost is the portion of the actuarial present value of total projected benefits allocated to the year following the measurement date.

## **Annual Required Contribution (ARC)**

- The ARC is equal to the normal cost and the amortization of the unfunded accrued actuarial liability. ***There is no requirement that the ARC is funded.***
- The unfunded liability may be amortized over a period of years not to exceed 30. The amortization period can be open or closed. The amortization can be a fixed dollar amount or an amount that is based as a percent of payroll.

# Valuation Results

## SUMMARY OF VALUATION RESULTS ALL DEPARTMENTS

*The key results for the current year are shown on a funded basis and a partially funded basis.*

	Funded (7.75% interest rate)	Partially Funded (5.75% interest rate)
<b>Actuarial Accrued Liability by Participant Category</b>		
1. Current retirees, beneficiaries and dependents	\$60,683,271	\$73,479,539
2. Current active members	<u>51,751,816</u>	<u>72,435,799</u>
3. Total actuarial accrued liability as of June 30, 2013: (1) + (2)	\$112,435,087	\$145,915,338
4. Actuarial value of assets as of June 30, 2013	<u>1,101,668</u>	<u>1,101,668</u>
5. Unfunded actuarial accrued liability (UAAL) as of June 30, 2013: (3) – (4)	\$111,333,419	\$144,813,670
6. Total actuarial accrued liability as of June 30, 2012	105,866,200	137,871,565
7. Actuarial value of assets as of June 30, 2012	<u>706,248</u>	<u>706,248</u>
8. Unfunded actuarial accrued liability (UAAL) as of June 30, 2012: (6) – (7)	\$105,159,952	\$137,165,317
<b>Annual Required Contribution for Fiscal Year Ending June 30, 2013</b>		
9. Normal cost as of July 1, 2013	\$3,658,803	\$5,417,572
10. Normal cost as of July 1, 2012	3,484,574	5,159,592
11. Adjustment for timing	<u>132,507</u>	<u>146,265</u>
12. Normal cost adjusted for timing: (10) + (11)	\$3,617,081	\$5,305,857
13. 30-year amortization (increasing 3.75% per year) of the UAAL as of June 30, 2012	5,753,295	5,949,033
14. Adjustment for timing	<u>218,781</u>	<u>168,645</u>
15. Amortization payment adjusted for timing: (13) + (14)	\$5,972,076	\$6,117,678
16. Total Annual Required Contribution (ARC): (12) + (15)	9,589,157	11,423,535
17. Projected benefit payments	5,192,902	5,192,902

*Note: Assumes payment in the middle of the fiscal year.*

# Valuation Results

## FUNDING SCHEDULE

30 Years Closed (7.75% discount rate, payments increasing 3.75%)

Fiscal Year Ended June 30	(1) Projected Benefit Payments	(2) Normal Cost with Interest	(3) Amortization of UAAL	(4) Total Funding Requirement (3) + (2)	(5) Additional Funding (4) - (1)	(6) Assets at End of Year	(7) AAL at End of Year	(8) UAAL at End of Year (7) - (6)
2013	\$5,192,903	\$3,617,081	\$5,972,076	\$9,589,157	\$300,000	\$1,101,668	\$112,435,087	\$111,333,419
2014	5,608,335	3,797,935	6,440,301	10,238,236	4,629,901	5,993,009	119,269,562	113,276,553
2015	6,166,988	3,987,832	6,681,812	10,669,644	4,502,656	11,131,346	126,250,930	115,119,584
2016	6,642,857	4,187,224	6,932,380	11,119,604	4,476,747	16,641,010	133,486,364	116,845,354
2017	7,258,340	4,396,585	7,192,345	11,588,930	4,330,590	22,425,957	140,860,978	118,435,021
2018	7,870,802	4,616,414	7,462,057	12,078,471	4,207,669	28,531,643	148,399,561	119,867,918
2019	8,358,134	4,847,235	7,741,885	12,589,120	4,230,986	35,134,722	156,256,119	121,121,397
2020	8,957,821	5,089,597	8,032,205	13,121,802	4,163,981	42,179,988	164,350,647	122,170,659
2021	9,556,438	5,344,077	8,333,413	13,677,490	4,121,052	49,726,700	172,715,278	122,988,578
2022	10,098,099	5,611,281	8,645,916	14,257,197	4,159,098	57,897,775	181,443,274	123,545,499
2023	10,753,888	5,891,845	8,970,138	14,861,983	4,108,095	66,649,166	190,458,196	123,809,030
2024	11,291,582	6,186,437	9,306,518	15,492,955	4,201,373	76,175,615	199,919,428	123,743,813
2025	11,856,162	6,495,759	9,655,512	16,151,271	4,295,109	86,537,665	209,848,941	123,311,276
2026	12,448,970	6,820,547	10,017,594	16,838,141	4,389,171	97,800,412	220,269,779	122,469,367
2027	13,071,418	7,161,574	10,393,254	17,554,828	4,483,410	110,033,844	231,206,109	121,172,265
2028	13,724,989	7,519,653	10,783,001	18,302,654	4,577,665	123,313,207	242,683,276	119,370,069
2029	14,411,238	7,895,636	11,187,363	19,082,999	4,671,761	137,719,395	254,727,859	117,008,464
2030	15,131,800	8,290,418	11,606,890	19,897,308	4,765,508	153,339,373	267,367,729	114,028,356
2031	15,888,390	8,704,939	12,042,148	20,747,087	4,858,697	170,266,633	280,632,112	110,365,479
2032	16,682,810	9,140,186	12,493,728	21,633,914	4,951,104	188,601,677	294,551,654	105,949,977
2033	17,516,950	9,597,195	12,962,243	22,559,438	5,042,488	208,452,546	309,158,488	100,705,942
2034	18,392,798	10,077,055	13,448,327	23,525,382	5,132,584	229,935,379	324,486,305	94,550,926
2035	19,312,438	10,580,908	13,952,640	24,533,548	5,221,110	253,175,024	340,570,430	87,395,406
2036	20,278,060	11,109,953	14,475,864	25,585,817	5,307,757	278,305,683	357,447,896	79,142,213
2037	21,291,963	11,665,451	15,018,709	26,684,160	5,392,197	305,471,619	375,157,529	69,685,910
2038	22,356,561	12,248,724	15,581,910	27,830,634	5,474,073	334,827,905	393,740,030	58,912,125
2039	23,474,389	12,861,160	16,166,232	29,027,392	5,553,003	366,541,234	413,238,064	46,696,830
2040	24,648,108	13,504,218	16,772,465	30,276,683	5,628,575	400,790,793	433,696,356	32,905,563
2041	25,880,514	14,179,429	17,401,433	31,580,862	5,700,348	437,769,194	455,161,782	17,392,588
2042	27,174,539	14,888,400	18,053,987	32,942,387	5,767,848	477,683,488	477,683,488	-

Notes: Assumes payment in the middle of the fiscal year.

Fiscal 2013 additional funding represents actual contribution.

# Valuation Results

## PROJECTION OF ARC

30 Years Open (5.75% discount rate, payments increasing 3.75%)

Fiscal Year Ended June 30	(1) Projected Benefit Payments	(2) Normal Cost	(3) Amortization of UAAL	(4) ARC (3) + (2)	(5) Additional Funding	(6) Assets at End of Year	(7) AAL at End of Year	(8) UAAL at End of Year (7) – (6)
2013	\$5,192,903	\$5,305,857	\$6,117,678	\$11,423,535	\$300,000	\$1,101,668	\$145,915,338	\$144,813,670
2014	5,608,335	5,571,150	6,458,799	12,029,949	402,440	1,604,791	154,267,231	152,662,440
2015	6,166,988	5,849,708	6,808,861	12,658,569	1,400,000	3,182,400	162,811,322	159,628,922
2016	6,642,857	6,142,193	7,119,571	13,261,764	1,500,000	4,986,076	171,658,116	166,672,040
2017	7,258,340	6,449,303	7,433,699	13,883,002	1,600,000	7,033,340	180,696,486	173,663,146
2018	7,870,802	6,771,768	7,745,508	14,517,276	1,700,000	9,343,070	189,956,344	180,613,274
2019	8,358,134	7,110,356	8,055,489	15,165,845	1,800,000	11,935,606	199,595,684	187,660,078
2020	8,957,821	7,465,874	8,369,782	15,835,656	1,900,000	14,832,867	209,538,195	194,705,328
2021	9,556,438	7,839,168	8,684,005	16,523,173	2,000,000	18,058,468	219,820,690	201,762,222
2022	10,098,099	8,231,126	8,998,748	17,229,874	2,100,000	21,637,856	230,540,481	208,902,625
2023	10,753,888	8,642,682	9,317,215	17,959,897	2,200,000	25,598,449	241,625,504	216,027,055
2024	11,291,582	9,074,816	9,634,970	18,709,786	2,300,000	29,969,791	253,239,363	223,269,572
2025	11,856,162	9,528,557	9,957,992	19,486,549	2,400,000	34,783,715	265,407,038	230,623,323
2026	12,448,970	10,004,985	10,285,975	20,290,960	2,500,000	40,074,520	278,154,675	238,080,155
2027	13,071,418	10,505,234	10,618,555	21,123,789	2,600,000	45,879,165	291,509,638	245,630,473
2028	13,724,989	11,030,496	10,955,305	21,985,801	2,700,000	52,237,473	305,500,565	253,263,092
2029	14,411,238	11,582,021	11,295,726	22,877,747	2,800,000	59,192,353	320,157,427	260,965,074
2030	15,131,800	12,161,122	11,639,240	23,800,362	2,900,000	66,790,039	335,511,588	268,721,549
2031	15,888,390	12,769,178	11,985,185	24,754,363	3,000,000	75,080,348	351,595,868	276,515,520
2032	16,682,810	13,407,637	12,332,802	25,740,439	3,100,000	84,116,959	368,444,612	284,327,653
2033	17,516,950	14,078,019	12,681,229	26,759,248	3,200,000	93,957,710	386,093,759	292,136,049
2034	18,392,798	14,781,920	13,029,489	27,811,409	3,300,000	104,664,922	404,580,910	299,915,988
2035	19,312,438	15,521,016	13,376,480	28,897,496	3,400,000	116,305,745	423,945,410	307,639,665
2036	20,278,060	16,297,067	13,720,962	30,018,029	3,500,000	128,952,535	444,228,424	315,275,889
2037	21,291,963	17,111,920	14,061,544	31,173,464	3,600,000	142,683,254	465,473,019	322,789,765
2038	22,356,561	17,967,516	14,396,668	32,364,184	3,700,000	157,581,906	487,724,251	330,142,345
2039	23,474,389	18,865,892	14,724,599	33,590,491	3,800,000	173,739,006	511,029,256	337,290,250
2040	24,648,108	19,809,187	15,043,401	34,852,588	3,900,000	191,252,084	535,437,343	344,185,259
2041	25,880,514	20,799,646	15,350,923	36,150,569	4,000,000	210,226,228	561,000,089	350,773,861
2042	27,174,539	21,839,628	15,644,780	37,484,408	4,100,000	230,774,671	587,771,448	356,996,777

# Valuation Results

## DEPARTMENT RESULTS

### Actuarial Accrued Liability (AAL) and Annual Required Contribution – Partially Funded (5.75%)

	Town	School	Sewer	Water	Total
<b>Actuarial Accrued Liability by Participant Category</b>					
1. Current retirees, beneficiaries and dependents	\$21,554,615	\$50,826,188	\$197,293	\$901,443	\$73,479,539
2. Current active members	<u>26,396,333</u>	<u>43,467,686</u>	<u>362,156</u>	<u>2,209,624</u>	<u>72,435,799</u>
3. Total actuarial accrued liability as of June 30, 2013: (1) + (2)	\$47,950,948	\$94,293,874	\$559,449	\$3,111,067	\$145,915,338
4. Actuarial value of assets as of June 30, 2013	<u>294,284</u>	<u>571,257</u>	<u>119,390</u>	<u>116,737</u>	<u>1,101,668</u>
5. Unfunded actuarial accrued liability (UAAL) as of June 30, 2013: (3) – (4)	\$47,656,664	\$93,722,617	\$440,059	\$2,994,330	\$144,813,670
6. Total actuarial accrued liability as of June 30, 2012	45,141,843	89,281,910	539,200	2,908,612	137,871,565
7. Actuarial value of assets as of June 30, 2012	<u>166,795</u>	<u>323,778</u>	<u>109,049</u>	<u>106,626</u>	<u>706,248</u>
8. Unfunded actuarial accrued liability (UAAL) as of June 30, 2012: (6) – (7)	\$44,975,048	\$88,958,132	\$430,151	\$2,801,986	\$137,165,317
<b>Annual Required Contribution for Fiscal Year Ending June 30, 2013</b>					
9. Normal cost as of July 1, 2013	\$1,836,882	\$3,453,177	\$18,532	\$108,981	\$5,417,572
10. Normal cost as of July 1, 2012	1,749,411	3,288,740	17,650	103,791	5,159,592
11. Adjustment for timing	<u>49,593</u>	<u>93,230</u>	<u>500</u>	<u>2,942</u>	<u>146,265</u>
12. Normal cost adjusted for timing: (10) + (11)	\$1,799,004	\$3,381,970	\$18,150	\$106,733	\$5,305,857
13. 30-year amortization (increasing 3.75% per year) of the UAAL as of June 30, 2012	1,950,625	3,858,226	18,656	121,526	5,949,033
14. Adjustment for timing	<u>55,297</u>	<u>109,374</u>	<u>529</u>	<u>3,445</u>	<u>168,645</u>
15. Amortization payment adjusted for timing: (13) + (14)	\$2,005,922	\$3,967,600	\$19,185	\$124,971	\$6,117,678
16. Total Annual Required Contribution (ARC): (12) + (15)	3,804,926	7,349,570	37,335	231,704	11,423,535
17. Projected benefit payments	1,591,439	3,500,360	28,609	72,494	5,192,902

# Disclosure Requirements

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## **Net OPEB Obligation (NOO)**

- The NOO is the cumulative difference between the ARC and the actual contributions made. At transition the NOO may be set at zero.
- Typically, the ARC will be much larger than actual contributions/employer paid benefits.
- Exception occurs if benefits are eliminated for some or all actives.

# Required Supplementary Information

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## CHART 1

### Required Supplementary Information – Schedule of Employer Contributions

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<b>Fiscal Year Ended June 30,</b>	<b>Annual OPEB Costs</b>	<b>Actual Contributions</b>	<b>Percentage Contributed</b>
2009	\$18,051,000	\$5,363,000	29.7%
2010	18,878,000	5,548,000	29.4%
2011	15,704,000	5,879,000	37.4%
2012	16,888,000	6,075,000	36.0%
2013	12,025,362	5,492,903	45.7%
2014	12,716,039	--	--

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*Notes: 2013 information includes an OPEB Trust contribution of \$300,000.*

*2014 information assumes there will be no plan changes that need to be reflected.*

# Required Supplementary Information *continued*

## CHART 2

### Required Supplementary Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll* (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
06/30/2009	\$0	\$245,108,000	\$245,108,000	0.00%	\$80,768,000	303.5%
06/30/2011	704,000	215,258,000	214,554,000	0.33%	87,023,000	246.6%
06/30/2013	1,101,668	145,915,338	144,813,670	0.76%	N/A	N/A

\* Enter covered payroll for fiscal 2013.

# Required Supplementary Information *continued*

## CHART 3

### Required Supplementary Information – Net OPEB Obligation/(Asset) (NOO/NOA)

Fiscal Year Ended June 30,	Annual Required Contribution (a)	Interest on Existing NOO (b)	ARC Adjustment (c)	Annual OPEB Cost (a) + (b) + (c) (d)	Actual Contribution Amount (e)	Net Increase in NOO (d) - (e) (f)	NOO as of Following Date (g)
2009	\$18,051,000	\$0	\$0	\$18,051,000	\$5,363,000	\$12,688,000	\$12,688,000
2010	19,029,000	444,000	(595,000)	18,878,000	5,548,000	13,330,000	26,018,000
2011	15,439,000	1,171,000	(906,000)	15,704,000	5,879,000	9,825,000	35,843,000
2012	16,523,000	1,613,000	(1,248,000)	16,888,000	6,075,000	10,813,000	46,656,000
2013	11,423,535	2,682,720	(2,080,893)	12,025,362	5,492,903	6,532,459	53,188,459
2014	12,029,949	3,058,336	(2,372,246)	12,716,039	--	--	--

Notes: 2013 information includes an OPEB Trust contribution of \$300,000.

2014 information assumes there will be no plan changes that need to be reflected.

# Questions

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