

GASB Statements No. 74 and 75
Report for Fiscal Year 2023

Town of Andover



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November 29, 2023

Patrick J. Lawlor
Chief Financial Officer
Town of Andover
36 Bartlet Street
Andover, MA 01810

Dear Mr. Lawlor:

For the purpose of satisfying the requirements of the Government Accounting Standards Board (GASB) Statements No. 74 and No. 75 Stone Consulting, Inc. has prepared a set of illustrative tables and other Required Supplementary Information (RSI) based on the July 1, 2021 actuarial valuation of the Town of Andover Other Post-employment Benefits (OPEB) plan performed by Stone Consulting, Inc. The valuation and this report were prepared using generally accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations and meet the parameters set by the Governmental Accounting Standards Board (GASB).

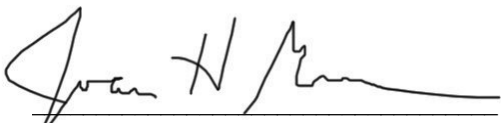
For GASB 74, the results are as of a valuation date of July 1, 2021, and an OPEB plan Fiscal Year-end of June 30, 2023. For GASB 75, the results are as of a valuation date of July 1, 2021, a measurement date of June 30, 2023, and a reporting date of June 30, 2023. To the best of our knowledge, this report is complete and accurate, and the assumptions used represent a reasonable estimate of anticipated experience of the system unless required by statute or by the GASB standard.

We are pleased to present these exhibits. If the Town of Andover or the Town of Andover OPEB Trust has any questions on the content of this report, we would be glad to respond. Please note that this report is meant to be used in its entirety. Use of excerpts of this report may result in a misleading or inaccurate understanding of the results.

Stone Consulting, Inc. is completely independent of the Town of Andover or the Town of Andover OPEB Trust, including any of their officers and key personnel. Neither we or anyone else closely associated with us has any relationship with the Town of Andover or the Town of Andover OPEB Trust which would impair our independence, other than this or related assignments, such as work for the Town of Andover Retirement System.

The undersigned are consultants for Stone Consulting, Inc. and members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,
STONE CONSULTING, INC.



Joan H. Moreau, ASA, FCA
Member, American Academy of Actuaries



Kevin K. Gabriel, FSA
Member, American Academy of Actuaries

SECTION I – ACTUARIAL RESULTS

Summary of Results

The most recent actuarial OPEB valuation performed by Stone Consulting for the Town of Andover was on July 1, 2021. Participant census data as of July 1, 2021 was supplied by the Town of Andover and liabilities were first determined as of that date. Update procedures were used to roll the Total OPEB Liability from the valuation date to June 30, 2023, the OPEB plan’s Fiscal Year-end (GASB 74) and June 30, 2023, the measurement date (GASB 75).

The key results as of June 30, 2023 were:

Total OPEB Liability	\$ 133,680,126
Plan Fiduciary Net Position	<u>27,798,792</u>
Net OPEB Liability	\$ 105,881,333

- “Total OPEB Liability” is the portion of the actuarial present value of projected benefit payments that is attributed to past periods of plan member service as of the measurement date based on actuarial assumptions chosen by the Town of Andover.
- “Plan Fiduciary Net Position” is the fair value of assets (as defined by GASB 72 and required by GASB 74) available, and in the OPEB trust, as of the end of the 2023 Fiscal Year, June 30, 2023.
- “Net OPEB Liability” is the difference between the above two figures and is the amount of the future liability not funded as of the measurement date.

Liabilities are calculated by using the “Entry Age Normal” actuarial cost method, the method required by GASB. These figures are intended for financial reporting and are not intended to be used to determine funding of the OPEB plan.

Service Cost

Service Cost for Plan Year 2023	\$ 3,380,787
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Service Cost is the cost of benefits accruing in each year. This figure is based on an interest rate of 6.00% and the Entry Age Normal Cost Method. Because the Service Cost used for Plan Year 2023 is a beginning-of-year number, it is calculated using the discount rate, assumptions, and participant data used in the prior GASB 74/75 report. Changes due to assumptions and experience are then calculated at the end of the measurement period.

Discount Rate at June 30, 2023

Results at June 30, 2023 use a discount rate of 6.00%. The 6.00% is based on an assessment of the Town of Andover OPEB Trust's investment strategy and should be thought of as a blend of the expected long-term rate of return on Trust assets and the municipal bond rate. The rate is determined based on a projection of future cash flows and assumes that the Town of Andover makes additional cash contributions of 0.4% of revenue, increasing at 2.5% per year, plus savings from OPEB reforms and the Actuarially Required Contributions for water and sewer. Should the future contribution amount schedule change or the target asset allocation change, the valuation discount rate would likely change.

Funding

Valuations performed for GASB74/75 purposes are not intended to be funding valuations. Rather, they are intended for use by accountants in developing financial statements. The rules set forth by GASB are designed to ensure that all entities report on a comparable basis. Development of a funding schedule requires additional assumptions and a separate actuarial valuation. Should an entity such as the Town of Andover wish to develop a plan to fund its liability on an actuarial basis in total or in part, it is free to choose:

- The actuarial cost method used in determining the liability
- The length and amortization of the funding schedule, including establishment of various bases
- Actuarial assumptions, such as the discount rate (this rate would not need to tie into a cash flow analysis such as in Statements 74 and 75)

In general, the funding amount is an amount to cover the Normal Cost (the cost of benefits accruing in each year) for the year plus an amount to amortize the unfunded liability over a period of time using a particular pattern (level, increasing, etc.). This would be done at a discount rate closer to the expected net long-term rate of return of 6.00% .

Use of a different cost method, discount rate, or other assumptions would give a different number for the Normal Cost, the unfunded OPEB Liability, and amortization amount.

Net OPEB Liability [GASB 74]

The components of the Net OPEB Liability for the Town of Andover OPEB Trust as of an OPEB plan Fiscal Year-end of June 30, 2023 were as follows:

	FY 2023	FY 2022
Total OPEB Liability		
Service Cost	\$ 3,380,787	\$ 3,689,180
Interest	7,708,876	8,408,845
Changes in Benefit Terms	0	0
Differences between expected and actual experience	0	(13,220,553)
Changes of assumptions	0	(5,327,020)
Benefit payments	(5,020,021)	(4,796,414)
Net change in Total OPEB liability	\$ 6,069,641	\$ (11,245,962)
Total OPEB Liability – beginning (6.00%)	127,610,485	138,856,446
Total OPEB Liability – ending (6.00%) (a)	\$ 133,680,126	\$ 127,610,485
Plan Fiduciary Net Position		
Contributions – employer*	\$ 6,922,322	\$ 6,633,275
Net Investment Income	3,085,850	(315,095)
Benefit payments	(5,020,021)	(4,796,414)
Administrative expenses	0	0
Net change in Plan Fiduciary Net Position	\$ 4,988,151	\$ 1,521,796
Plan Fiduciary Net Position – beginning	22,810,641	21,288,875
Plan Fiduciary Net Position – ending (b)	\$ 27,798,792	\$ 22,810,641
Net OPEB Liability – ending (a) – (b)	\$ 105,881,333	\$ 104,799,844
Plan Fiduciary Net Position as a percentage of Total OPEB Liability	20.8%	17.9%

*Employer contribution of \$5,020,021 of Pay-As-You-Go and a \$1,902,301 cash contribution for FY2023.

Update procedures were used to roll the Total OPEB Liability from the valuation date (07/01/2021) to the beginning of the plan's Fiscal Year (07/01/2022) and to the OPEB plan's Fiscal Year-end (06/30/2023). [GASB Statement No. 74, Paragraph 35(c)]

Note: Charts in this report may not total due to rounding.

Changes from Prior Report

This report is a roll-forward of the prior valuation. There have been no material plan changes since the prior OPEB valuation of July 1, 2021, including, but not limited to, benefit provisions, changes to health insurance, and other OPEB benefits which would prevent us from using the valuation results to prepare the GASB reports for Fiscal Year 2023.

Distribution of the Member Population

Town of Andover OPEB Trust – Membership as of June 30, 2023

	2023	2022
Retired, Disabled, Survivors and Beneficiaries receiving benefits	812	803
Inactive plan members entitled to but not yet receiving benefit payments *	41	33
Active plan members	1,360	1,359
Total	2,213	2,195

These numbers are based on the data supplied by the Town of Andover as of June 30, 2023. Note that these membership numbers count a retiree and a spouse as only one member, even if they have separate policies.

* The number of inactive plan members was not available from the MTRS as of June 30, 2023. The inactive count shown here represents inactives for the Town of Andover only. MTRS inactive data is unavailable, but we believe it is immaterial.

Development of Exhibits

DISCOUNT RATE

Total OPEB Liability as of the plan’s Fiscal Year-end (June 30, 2023) is calculated using a discount rate assumption of 6.00%. To calculate this rate, Stone Consulting has conducted a cash flow study of the Trust assets and liabilities. Using a rate consistent with the Trust’s investment strategy (6.00%), we determine the length of time for which the assets would support OPEB benefit payments for current and projected new employees. For the Town of Andover OPEB Trust, there is no depletion point. The present value of OPEB benefits is then calculated using a rate consistent with the Trust’s investment strategy (6.00%) before the depletion point and a rate based on 20-year Municipal General Obligation bonds as shown in the Bond Buyer 20 Bond Index (3.65% as of June 30, 2023) after the depletion point. Finally, a single rate producing an equivalent present value of benefits is calculated. This is the 6.00% rate we have used for the Town of Andover (GASB 75) and the Town of Andover OPEB Trust (GASB 74). One of the objectives of the provisions introduced by GASB 74 and 75 is to examine how benefit payments and plan contributions and investment earnings interact on a cash flow basis. GASB 74 and 75 require that these amounts be calculated with the Fair Value of Assets and using the Entry Age Normal cost method.

Projected contributions for each year are the sum of cash payments and the pay-as-you-go funding of the retirees. Consistent with the requirements of GASB Statement No. 74 and 75, we have first assigned the contribution to the cost of projected new entrants prior to allocating the remainder to cover existing actives and inactive employees.

As of June 30, 2023, the Town of Andover’s Fiduciary Net Position was projected to be available to make all future benefit payments of current active and inactive employees per the methodology contained in GASB 75. Thus, the long-term expected rate of return on investments was applied for all benefit periods when calculating the Net OPEB Liability.

The long-term rate of return which was used to develop the discount rate of 6.00% includes the effect of inflation (not subtracted out as in the real rates of return). It is based on a combination of expected rates of return on the mix of current and expected investments over a long-term period. These expectations are based on current market conditions, historical experience and future expectations. It assumes a rebalancing of assets on an ongoing basis as well as a constant monitoring of asset allocation and manager performance.

GASB Statement No. 74, Paragraph 34(b)(3) requires that an annual money-weighted rate of return be developed using the market value of assets at the beginning of the Plan Year, along with monthly cash flows. This has been done for the 2023 Fiscal Year, and is shown below:

Fiscal Year	2023
Money-Weighted Rate of Return	12.92%

For detailed calculations of this amount, see the schedule on page 10.

Discount Sensitivity

The following presents Town of Andover OPEB Trust's Net OPEB Liability calculated at the valuation discount rate of 6.00%, as well as at discount rates one percent higher (7.00%) and one percent lower (5.00%).

OPEB Plan Fiscal Year-End	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
06/30/2023	\$ 124,054,688	\$ 105,881,333	\$ 90,985,012

Sensitivity of Current Valuation to Funding Level

To give Town of Andover and the OPEB Trust some idea of the sensitivity of the discount rate employed in the GASB valuation to the assumed funding level, Stone Consulting has performed depletion analysis under the funding scenario where the Town of Andover ceases to make contributions to the OPEB trust. In this case, the discount rate employed would be lowered by 186 basis points from 6.00% to 4.14%. Lower returns than 6.00% per annum will increase the number of years the Town of Andover needs to contribute in order to use the fully funded discount rate for GASB 74 and 75. We have not calculated liabilities at the 4.14% rate; however, as required by GASB 74 and shown on page 6 of this report, a 5.00% discount rate increases the Net OPEB Liability from \$105,881,333 to \$124,054,688.

These sensitivity calculations assume the same assumptions and methods as used in the original valuation with only a change in the amount the Town of Andover plans to contribute. They also assume no change in the Town of Andover investment strategy. A change in such strategy would also impact the discount rate determined.

Trend Sensitivity

For post-retirement medical plans in particular, the calculated actuarial values are highly sensitive to the assumed rate of health care cost trend. This is due to the compounding effect of the annual trend rates assumed for medical costs, as opposed to pension valuations where benefit levels typically remain fixed.

The following table illustrates the effect on our valuation results of a 1% increase or decrease in the assumed rates of health care cost trend in each year.

OPEB Plan Fiscal Year-End	1% Decrease	Base Trend *	1% Increase
06/30/2023	\$ 86,983,080	\$ 105,881,333	\$ 129,585,469

* Base trend rates are found in Actuarial Assumptions and Methods, page 28.

Long-Term Expected Real Rate of Return

The long-term expected real rate of return reflects the expected rate of return on plan assets adjusted for the expected rate of inflation. Note that the discount rate includes the effect of inflation. The long-term expected real rate of return removes the effect of inflation on the return amounts. It is a long-term assumption and is meant to reflect a reasonable estimate of future experience, based on the expected asset allocation. Allocation percentages are based on information provided by the Town of Andover and Rockland Trust. Real rates of return are obtained from the Horizon Actuarial Services Survey of Capital Market Assumptions, 2023 Edition, adjusted for the average Survey inflation assumption of 2.46%.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Geometric Average)
Domestic Equity-Large Cap	46.8%	4.8%
Domestic Equity-Small/Mid Cap	5.9%	5.2%
International Equity-Developed Market	5.6%	5.2%
International Equity-Emerging Market	2.8%	6.0%
Domestic-Fixed Income	17.0%	2.2%
High Yield Fixed Income	2.5%	4.0%
International Fixed Income	3.5%	1.0%
Alternatives	9.3%	3.6%
Real Estate	5.6%	3.7%
Cash	1.0%	0.0%

Schedule of Changes in OPEB Trust Net OPEB Liability and Related Ratios [GASB 74]

(Amounts in Thousands)

Plan Year-End of June 30,	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
TOTAL OPEB LIABILITY										
Service cost	3,381	3,689	3,582	3,458	4,451	4,186	5,605			
Interest	7,709	8,409	7,997	8,488	8,448	7,515	9,299			
Change of benefit terms	0	0	0	0	(10,540)	0	(42,080)			
Differences between expected and actual experience	0	(13,221)	0	(6,119)	0	10,866	-			
Change of assumptions	0	(5,327)	0	(9,466)	(12,769)	1,600	(6,595)			
Benefit payments	(5,020)	(4,796)	(4,831)	(4,518)	(4,986)	(4,924)	(4,648)			
Net change in Total OPEB Liability	6,070	(11,246)	6,747	(8,157)	(15,395)	19,243	(38,418)			
Total OPEB Liability - beginning	127,610	138,856	132,109	140,266	155,661	136,417	174,836			
Total OPEB Liability - ending	133,680	127,610	138,856	132,109	140,266	155,661	136,417			
PLAN FIDUCIARY NET POSITION										
Contributions - employer	6,922	6,633	6,873	6,500	6,804	6,572	6,150			
Contributions - employee	0	0	0	0	0	0	0			
Net Investment Income	3,086	(315)	4,269	503	720	636	731			
Benefit payments	(5,020)	(4,796)	(4,831)	(4,518)	(4,986)	(4,924)	(4,648)			
Administrative expense	0	0	0	0	0	0	0			
Other	0	0	0	0	0	0	0			
Net change in Plan Fiduciary Net Position	4,988	1,522	6,311	2,486	2,539	2,285	2,233			
Plan Fiduciary Net Position - beginning	22,811	21,289	14,978	12,492	9,953	7,668	5,435			
Plan Fiduciary Net Position - end	27,799	22,811	21,289	14,978	12,492	9,953	7,668			
Town of Andover Net OPEB Liability – ending	105,881	104,800	117,568	117,131	127,774	145,708	128,749			
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	20.8%	17.9%	15.3%	11.3%	8.9%	6.4%	5.6%			
Money-Weighted Rate of Return	12.92%	-1.40%	26.21%	3.65%	6.48%	7.21%	NA			

Schedule of Plan Contributions [GASB 74]

Plan Year-End of June 30,	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially Determined Contribution	\$8,685	\$8,280	\$8,826	\$9,610	\$10,148	\$9,968	\$9,438			
Contributions in relation to the Actuarially Determined Contribution	(6,922)	(6,633)	(6,873)	(6,500)	(6,804)	(6,572)	(6,150)			
Contribution deficiency / (excess)	\$1,763	\$1,647	\$1,953	\$3,110	\$3,344	\$3,396	\$3,283			

The Town of Andover's plan to fund OPEB is to contribute, on an annual basis, 0.4% of revenue increasing at 2.5% per year plus savings from OPEB reforms and the Actuarially Determined Contributions for water and sewer. This plan became effective as of 7/1/16.

Money-Weighted Rate of Return [GASB 74, ¶34.b(3)]

NET EXTERNAL CASH FLOW					
	Beginning of month	Middle of Month	End of Month	Periods Invested**	Cash Flow with Return
Starting Value* (7/1/2022)	\$22,810,641.00			12	\$ 25,758,868.95
<u>Cash Flows:</u>					
July	366.23			11	413.56
August				10	0.00
September				9	0.00
October				8	0.00
November			1,872,288.00	7	2,009,862.80
December				6	0.00
January				5	0.00
February				4	0.00
March				3	0.00
April				2	0.00
May				1	0.00
June			29,647.17	0	<u>29,647.17</u>
Ending Value* (6/30/2023)	\$27,798,792.49			Sum:	\$ 27,798,792.49

* Value shown does not include any payables or receivables, except those related to investments.

** Middle of period cash flows are given an additional half period of investment return, and beginning of period cash flows are given an additional full period.

Return Rate:	12.92%
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Changes in the Net OPEB Liability [GASB 75, ¶155]

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at beginning of Measurement Period (07/01/2022)	\$ 127,610,485	\$ 22,810,641	\$ 104,799,844
Changes for the Year:			
Service Cost	3,380,787		3,380,787
Interest	7,708,876		7,708,876
Change in benefit terms	0		0
Differences between expected and actual experience	0		0
Change in assumptions	0		0
Contributions - employer		6,922,322	(6,922,322)
Contributions - employee		0	0
Net investment income		3,085,850	(3,085,850)
Benefit payments	(5,020,021)	(5,020,021)	0
Administrative expense		0	0
Other changes		0	0
Net Changes	<u>6,069,641</u>	<u>4,988,151</u>	<u>1,081,490</u>
Balances at end of Measurement Period (06/30/2023)	\$ 133,680,126	\$ 27,798,792	\$ 105,881,333

NOTE: Amounts shown in this report may not total due to rounding

Update procedures were used to roll the Total OPEB Liability from the valuation date (07/01/2021) to the beginning of the measurement period (07/01/2022) and to the measurement date (06/30/2023). [GASB Statement No. 75, Paragraph 28]

Plan Fiduciary Net Position as a percentage of Total OPEB Liability	20.8%
Covered Employee Payroll *	\$107,162,203
Net OPEB Liability as a percentage of payroll	98.8%

* Fiscal Year 2023 gross wages paid to all employees eligible for and accruing OPEB benefits.

Projection of the Net OPEB Liability

TOTAL OPEB LIABILITY (TOL)

The Total OPEB Liability at the beginning of the measurement period (07/01/2022) is equal to the Actuarial Accrued Liability (AAL) rolled from 07/01/2021. Any differences between the projected amount and the actual value that are not the result of changes in assumptions or plan provisions are recognized as “Differences between expected and actual experience.” GASB Statement No. 75, Paragraph 42 requires that the AAL be calculated under the Entry Age Normal Cost Method. The components of the AAL (calculated as of 07/01/2021 at a discount rate of 6.00%) are as follows:

Actives	\$ 57,481,598
Retirees, Disabled, Beneficiaries, and Vested Terminated	<u>64,284,001</u>
Total	\$ 121,765,599

The TOL is projected to the end of the measurement period (06/30/2023) by adding the changes resulting from experience, assumption changes, and changes to plan provisions. Interest is given to the TOL, Service Cost, and paid benefits, and added to the total, less the projected benefit payments for the year. Changes due to expected and actual gains on plan assets will be recognized over a five-year period [GASB Statement No. 75, Paragraph 43b], and liabilities arising from changes in plan structure or assumptions will be spread over the average of the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan (active employees and inactive employees) [GASB Statement No. 75, Paragraph 43a]. Changes in plan provisions are recognized immediately.

PLAN FIDUCIARY NET POSITION (FNP)

GASB Statement No. 75 requires that the Fair Value of Assets be used for the Fiduciary Net Position. We have used the Market Value of Assets, adjusted for payables and receivables. Net investment income is the portion of the change in assets during the measurement period that is not attributed to employee/employer contributions, benefits payments, administrative expense, or other changes.

The projected Net OPEB Liability (NOL) for the end of the year is the portion of the TOL not covered by the FNP.

OPEB Expense Components

Components of Town of Andover’s OPEB Expense for the Fiscal Year ended June 30, 2023 [GASB 75, Paragraph 43] are shown below.

NOTE*	Description	Fiscal 2023	Fiscal 2022
A	Service Cost	\$ 3,380,787	\$ 3,689,180
A, B	Interest	7,708,876	8,408,845
C	Differences between Expected and Actual Experience	(2,405,269)	(1,545,376)
D	Changes of Assumptions	(4,923,633)	(4,797,036)
D	Changes to Benefit Provisions	0	0
E	Projected Earnings on Plan Investments	(1,425,708)	(1,332,438)
F	Differences between Projected and Actual Earnings on Plan Investments	(624,421)	(327,209)
A	Administrative Expense	0	0
A	Other Changes in Fiduciary Net Position	0	0
	Total OPEB Expense	\$ 1,710,632	\$ 4,095,965

* Notes shown on page 14. Amounts are based on the following dates:

- Valuation date: July 1, 2021
- Measurement date: June 30, 2023
- Reporting date: June 30, 2023

CHANGES IN METHODS, ASSUMPTIONS, AND PLAN PROVISIONS

There were no changes in methods, assumptions, or plan provisions.

NOTES

- A. See the RSI schedule of changes to the Net OPEB Liability, on page 11.
- B. Events that impact the Total OPEB Liability are assumed to happen evenly throughout the period. In addition, the amount of interest is calculated using an interest rate equal to the discount rate that was used to determine the service cost. The amount is determined as follows:

Description	Amount for Period (a)	Portion of Period (b)	Interest Rate (c)	Interest on the Total OPEB Liability (a) x (b) x (c)
Beginning Total OPEB Liability	\$ 127,610,485	100%	6.00%	\$ 7,656,629
Service cost	3,380,787	100%	6.00%	202,847
Benefit payments	\$ (5,020,021)	50%	6.00%	(150,601)
Interest				\$ 7,708,876

- C. Differences between expected and actual experience recognized in the current period in accordance with paragraph 43a of Statement 75. For the detailed calculation of this amount, see the schedule on page 16.
- D. Assumption and plan provision changes recognized in OPEB Expense in the current period in accordance with paragraph 43a of Statement 75. For detailed calculations of these amounts, see the schedule on page 16.
- E. Changes in the amounts invested are assumed to occur evenly throughout the period. In addition, the amount of projected earnings on plan investments is calculated using the assumed rate of return on plan investments as of the beginning of the period. The amount is determined as follows:

Description	Amount for Period (a)	Portion of Period (b)	Projected Rate of Return (c)	Projected Earnings (a) x (b) x (c)
Beginning plan Fiduciary Net Position	\$ 22,810,641	100%	6.00%	\$ 1,368,638
Employer contributions	6,922,322	50%	6.00%	207,670
Employee contributions	0	50%	6.00%	0
Benefit payments	(5,020,021)	50%	6.00%	(150,601)
Administrative expense	0	50%	6.00%	0
Total projected earnings				\$ 1,425,708
Actual earnings				3,085,850
Difference between projected and actual earnings				\$ (1,660,143)

- F. Differences between projected and actual earnings recognized in the current period in accordance with paragraph 43b of Statement 75. For detailed calculation of this amount, see the schedule on page 16.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB [GASB 75, ¶56.h.]

	Deferred Outflows Of Resources ⁽¹⁾	Deferred Inflows Of Resources
Differences between expected and actual experience	\$ 0	\$ (9,930,881)
Changes of assumptions	0	(6,775,877)
Net difference between projected and actual earnings on plan investments	<u>0</u>	<u>(1,592,425)</u>
Total	\$ 0	\$ (18,299,183)

⁽¹⁾ Deferred Outflows of Resources do not include changes in employer proportion, differences between employer contributions and proportionate share of contributions, and employer contributions subsequent to the measurement date.

Year Ending June 30, *	Recognition
2024	\$ (8,170,770)
2025	(4,126,549)
2026	(3,222,587)
2027	(2,779,278)
2028	0
Thereafter	0

*The years are based on measurement date of June 30, 2023. For GASB 75, the reporting date is the same as the measurement date.

■ Town of Andover

GASB Statements No. 74 and No. 75

Increase / (Decrease) in OPEB Expense Arising from the Recognition of Gains and Losses [GASB 75]

Increase / (Decrease) in OPEB Expense Arising from the Recognition of the Effects of Differences between Expected and Actual Experience

Fiscal Year	Differences between actual and expected experience	Recognition period (years)	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
2018	\$ 10,865,917	5.56	\$ 1,954,302	\$ 1,954,302	\$ 1,954,302	\$ 1,094,409	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2019	\$ -	5.56	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2020	\$ (6,118,570)	5.08	\$(1,204,443)	\$(1,204,443)	\$(1,204,443)	\$(1,204,443)	\$(1,204,443)	\$ (96,355)	\$ -	\$ -	\$ -	\$ -
2021	\$ -	5.08		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2022	\$ (13,220,553)	5.76			\$(2,295,235)	\$(2,295,235)	\$(2,295,235)	\$(2,295,235)	\$(2,295,235)	\$(1,744,378)	\$ -	\$ -
2023	\$ -	5.76				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net increase (decrease) in OPEB expense			\$ 749,859	\$ 749,859	\$(1,545,376)	\$(2,405,269)	\$(3,499,678)	\$(2,391,590)	\$(2,295,235)	\$(1,744,378)	\$ -	\$ -

Increase / (Decrease) in OPEB Expense Arising from the Recognition of the Effects of Changes of Assumptions

Fiscal Year	Change of assumptions	Recognition period (years)	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
2018	\$ 1,599,726	5.56	\$ 287,721	\$ 287,721	\$ 287,721	\$ 161,123	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2019	\$ (12,768,804)	5.56	\$(2,296,548)	\$(2,296,548)	\$(2,296,548)	\$(2,296,548)	\$(1,286,067)	\$ -	\$ -	\$ -	\$ -	\$ -
2020	\$ (9,465,966)	5.08	\$(1,863,379)	\$(1,863,379)	\$(1,863,379)	\$(1,863,379)	\$(1,863,379)	\$ (149,070)	\$ -	\$ -	\$ -	\$ -
2021	\$ -	5.08		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2022	\$ (5,327,020)	5.76			\$ (924,830)	\$ (924,830)	\$ (924,830)	\$ (924,830)	\$ (924,830)	\$(702,871)	\$ -	\$ -
2023	\$ -	5.76				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net increase (decrease) in OPEB expense			\$(3,872,206)	\$(3,872,206)	\$(4,797,036)	\$(4,923,633)	\$(4,074,276)	\$(1,073,900)	\$ (924,830)	\$(702,871)	\$ -	\$ -

Increase/(Decrease) in OPEB Expense Arising from the Recognition of Differences between Expected and Actual Earnings on OPEB Plan Investments

Fiscal Year	Differences between projected and actual earnings on OPEB plan investments	Recognition period (years)	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
2019	\$ (138,022)	5	\$ (27,604)	\$ (27,604)	\$ (27,604)	\$ (27,604)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2020	\$ 321,213	5	\$ 64,243	\$ 64,243	\$ 64,243	\$ 64,243	\$ 64,243	\$ -	\$ -	\$ -	\$ -	\$ -
2021	\$ (3,292,685)	5		\$ (658,537)	\$ (658,537)	\$ (658,537)	\$ (658,537)	\$ (658,537)	\$ -	\$ -	\$ -	\$ -
2022	\$ 1,647,533	5			\$ 329,507	\$ 329,507	\$ 329,507	\$ 329,507	\$ 329,507	\$ -	\$ -	\$ -
2023	\$ (1,660,143)	5				\$ (332,029)	\$ (332,029)	\$ (332,029)	\$ (332,029)	\$ (332,029)	\$ -	\$ -
Net increase (decrease) in OPEB expense			\$ 1,821	\$ (656,716)	\$ (327,209)	\$ (624,421)	\$ (596,816)	\$ (661,059)	\$ (2,522)	\$ (332,029)	\$ -	\$ -

■ Town of Andover

GASB Statements No. 74 and No. 75

Deferred Outflows and Deferred Inflows of Resources Arising from Gains and Losses

Deferred Outflows and Deferred Inflows of Resources Arising from Differences between Expected and Actual Experience

Fiscal Year	Experience Losses (a)	Experience Gains (b)	Amounts Recognized in OPEB Expense through June 30, 2023 (c)	BALANCES AT JUNE 30, 2023	
				Deferred Outflows of Resources (a) - (c)	Deferred Inflows of Resources (b) - (c)
2020	\$ -	\$ (6,118,570)	\$ (4,817,772)	\$ -	\$ (1,300,798)
2021	\$ -	\$ -	\$ -	\$ -	\$ -
2022	\$ -	\$ (13,220,553)	\$ (4,590,470)	\$ -	\$ (8,630,083)
2023	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL				\$ -	\$ (9,930,881)

Deferred Outflows and Deferred Inflows of Resources Arising from Changes of Assumptions

Fiscal Year	Increases in the Total OPEB Liability (a)	Decreases in the Total OPEB Liability (b)	Amounts Recognized in OPEB Expense through June 30, 2023 (c)	BALANCES AT JUNE 30, 2023	
				Deferred Outflows of Resources (a) - (c)	Deferred Inflows of Resources (b) - (c)
2019	\$ -	\$ (12,768,804)	\$ (11,482,738)	\$ -	\$ (1,286,067)
2020	\$ -	\$ (9,465,966)	\$ (7,453,517)	\$ -	\$ (2,012,450)
2021	\$ -	\$ -	\$ -	\$ -	\$ -
2022	\$ -	\$ (5,327,020)	\$ (1,849,660)	\$ -	\$ (3,477,361)
2023	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL				\$ -	\$ (6,775,877)

**Deferred Outflows and Deferred Inflows of Resources
Arising from Differences between Expected and Actual Earnings on OPEB Plan Investments**

Fiscal Year	Investment Earnings Less than Projected (a)	Investment Earnings More than Projected (b)	Amounts Recognized in OPEB Expense through June 30, 2023 (c)	BALANCES AT JUNE 30, 2023	
				Deferred Outflows of Resources (a) - (c)	Deferred Inflows of Resources (b) - (c)
2020	\$ 321,213	\$ -	\$ 256,970	\$ 64,243	\$ -
2021	\$ -	\$ (3,292,685)	\$ (1,975,611)	\$ -	\$ (1,317,074)
2022	\$ 1,647,533	\$ -	\$ 659,013	\$ 988,520	\$ -
2023	\$ -	\$ (1,660,143)	\$ (332,029)	\$ -	\$ (1,328,114)
TOTAL				\$ 1,052,763	\$ (2,645,188)
			NET TOTAL		\$ (1,592,425)

Results by Employer

Employer	Proportion	Contributions made FY 2023 ¹	Proportionate Share of OPEB Expense ²
Town of Andover	98.16%	\$ 6,794,952	\$ 2,748,757
Water	1.46%	\$ 101,066	\$ (877,956)
Sewer	0.38%	\$ 26,305	\$ (160,169)
TOTAL	100.00%	\$ 6,922,322	\$ 1,710,632

Employer	Proportionate Share of NOL	Proportionate share of NOL Discount Sensitivity (in 1,000's)	
		1% Increase (7%)	1% Decrease (5%)
Town of Andover	\$ 103,933,117	\$ 89,311	\$ 121,773
Water	\$ 1,545,867	\$ 1,328	\$ 1,811
Sewer	\$ 402,349	\$ 346	\$ 471
TOTAL	\$ 105,881,333	\$ 90,985	\$ 124,055

Employer	Change in NOL due to Change in Proportionality	Proportionate Share of Deferred Outflows of Resources ³	Proportionate Share of Deferred Inflows of Resources ³
Town of Andover	\$ 25,878	\$ 3,559,044	\$ (17,962,478)
Water	\$ (25,878)	\$ -	\$ (3,294,673)
Sewer	\$ -	\$ -	\$ (601,077)
TOTAL	\$ -	\$ 3,559,044	\$ (21,858,228)

¹ Cash contributions made to OPEB trust plus a share of the implicit subsidy. The implicit subsidy is allocated since the Enterprise Funds have made premium payments for active members.

² Includes amortization of current and prior changes in proportionality.

³ Deferred Outflows and Inflows by Employer include deferred recognition of the changes in proportionality. Because of this, the total Deferred Outflows and total Deferred Inflows will not match those shown on page 15. They are only equal in total.

SECTION II - ACTUARIAL VALUATION DETAILS

Population Data

A. DISTRIBUTION BY AGE: RETIREES, BENEFICIARIES, AND SURVIVORS (Includes retirees with life only)

Age	Total
0-19	0
20-24	0
25-29	0
30-34	1
35-39	1
40-44	2
45-49	7
50-54	9
55-59	26
60-64	78
65-69	222
70-74	316
75-79	210
80-84	130
85-89	83
90-94	35
95-99	5
100+	0
TOTAL	1,125

Includes retirees who are eligible for medical or with life coverage in addition to terminated vesteds, beneficiaries, and survivors with medical coverage.

B. ACTIVE PARTICIPANTS

OF PARTICIPANTS*

Current Plan	Mandatory Medicare Eligible	Pre-Mandatory Medicare Eligible	Total
No Medical/ Unknown	76	0	76
Indemnity	0	0	0
Managed Care	1,266	12	1,278
TOTAL	1,342	12	1,354

* "Pre-Mandatory Medicare eligible" means hired March 31, 1986 or before. "Mandatory Medicare eligible" means hired after March 31, 1986. Employees hired March 31, 1986 or before do not contribute to Medicare.

C. PLAN DEFINITION TABLE⁽¹⁾

Name of Plan	Type of Plan	Ind Rate	Retirees Enrolled	Fam Rate	Retirees Enrolled	EE Cont %
Blue Care Elect	Commercial Managed Care	\$931.21	15	\$2,495.64	3	50%
Network Blue New England	Commercial Managed Care	\$766.06	61	\$2,065.14	33	50%
Medex	Medicare Indemnity	\$356.27	957	\$356.27	NA	35%
Life Insurance	Life Insurance	\$2.32	371	NA	NA	50%

⁽¹⁾ Rates at 07/01/2021. Only plans with retiree enrollment shown.

C. DISTRIBUTION BY AGE AND SERVICE: ACTIVE PARTICIPANTS

Age Group	0-4	5-9	10-15	15-19	20-24	25-29	30-34	35-39	40+	Total
0-19	0	0	0	0	0	0	0	0	0	0
20-24	20	0	0	0	0	0	0	0	0	20
25-29	74	11	0	0	0	0	0	0	0	85
30-34	73	47	6	0	0	0	0	0	0	126
35-39	39	55	33	9	1	0	0	0	0	137
40-44	55	23	30	36	9	0	0	0	0	153
45-49	54	32	22	28	36	6	0	0	0	178
50-54	49	37	39	25	33	33	7	0	0	223
55-59	26	30	38	41	26	11	17	7	0	196
60-64	16	23	30	32	39	8	8	2	0	158
65-69	3	9	11	12	11	7	2	1	1	57
70-74	0	0	2	2	5	3	1	0	1	14
75-79	1	0	2	0	1	0	1	0	0	5
80-84	0	0	0	0	0	0	1	0	1	2
85-89	0	0	0	0	0	0	0	0	0	0
90-94	0	0	0	0	0	0	0	0	0	0
95-99	0	0	0	0	0	0	0	0	0	0
100+	0	0	0	0	0	0	0	0	0	0
TOTAL	410	267	213	185	161	68	37	10	3	1,354

SECTION III – APPENDICES

Actuarial methods and assumptions were selected by the Town of Andover, other than those required by statute or by GASB statements, with guidance from Stone Consulting, Inc. This report was prepared using our proprietary valuation model and OPEVS version 5.26. In our professional judgment, this software has the capability to provide results which are consistent with the purposes of the valuation. Output from the software is tested to ensure that the model reasonably represents that which is intended to be modeled. The valuation output is prepared and analyzed using proprietary spreadsheets followed by a final review by a qualified actuary.

Actuarial Methods

Actuarial Cost Method

Costs are attributed between past and future service using the Entry Age Normal cost method. For attribution purposes, benefits are assumed to accrue over all employee service until decrement.

Asset Valuation Method

Market value of assets with payables and receivables.

Actuarial Assumptions

Valuation Date

July 1, 2021

Interest Rate / Discount Rate

- 6.00% per year net of investment expenses as of 06/30/2023. In the calculation of the discount rate, the 20-year Municipal General Obligation bonds as shown in the Bond Buyer 20 Bond Index (3.65%) and a long-term rate of return of 6.00% were used.
- 6.00% per year as of 07/01/2022.

Salary Scale

- Groups 1, 2, and 4: 4.25%
- Teachers: 4.00%
- Overall payroll increase rate, including new entrants of 3.00% per year.

Inflation

- CPI-U of 2.50% per year.

Actuarial Assumptions (Continued)

Mortality

- **Actives:** The RP-2014 Mortality Tables adjusted to 2006, sex-distinct, for Employees projected using generational mortality and scale MP-2021.
- **Retirees:** The RP-2014 Mortality Tables adjusted to 2006, sex-distinct, for Healthy Annuitants projected using generational mortality and scale MP-2021.
- **Disabled:** The RP-2014 Mortality Tables adjusted to 2006, sex-distinct, for Healthy Annuitants projected using generational mortality and scale MP-2021. Set forward 2 years.

No additional mortality projection is assumed other than as described above.

Eligibility for Vested Post-Retirement Medical Benefits upon Withdrawal

10 years of Service; assumed that individuals who withdraw prior to age 40 will elect a return of pension contributions and therefore be ineligible for retiree medical coverage.

Withdrawal Prior to Retirement, Non-Teachers

Based on years of service. Same for both pre- and post-April 1, 2012 (Tier 1 and Tier 2) hires.

Years of Service	Groups 1,2	Group 4
0	15.00%	1.50%
1	12.00%	1.50%
2	10.00%	1.50%
3	9.00%	1.50%
4	8.00%	1.50%
5	7.60%	1.50%
6	7.50%	1.50%
7	6.70%	1.50%
8	6.30%	1.50%
9	5.90%	1.50%
10	5.40%	1.50%
11	5.00%	0.00%
12	4.60%	0.00%
13	4.10%	0.00%
14	3.70%	0.00%
15	3.30%	0.00%
16-20	2.00%	0.00%
21-29	1.00%	0.00%
30+	0.00%	0.00%

Actuarial Assumptions (Continued)

Withdrawal Prior to Retirement, Teachers

Same for both pre and post-April 1, 2012 hires.

		Service		
Age		0	5	10
Male Teachers	25	13.00%	5.50%	1.50%
	35	13.30	5.30	1.50
	45	14.00	7.00	2.20
	55	24.60	6.50	2.50
Female Teachers	25	10.00%	7.00%	5.00%
	35	11.00	7.00	3.00
	45	9.80	4.00	2.10
	55	13.80	6.00	2.00

Disability Prior to Retirement

The rates shown at the following sample ages illustrate the assumption regarding the incidence of disability. Disability is assumed to be 55% ordinary and 45% accidental for Groups 1 and 2, 10% ordinary and 90% accidental for Group 4, and 55% ordinary and 45% accidental for Teachers.

Rate of Disability			
Age	Groups 1 and 2	Group 4	Teachers
20	0.01%	0.10%	0.004%
25	0.02%	0.20%	0.005%
30	0.03%	0.30%	0.006%
35	0.06%	0.30%	0.006%
40	0.10%	0.30%	0.010%
45	0.15%	1.00%	0.030%
50	0.19%	1.25%	0.050%
55	0.24%	1.20%	0.080%
60	0.28%	0.85%	0.100%

Medicare Eligibility

- **Employees:** 100% if hired March 31, 1986 or after; 85% if hired pre-March 31, 1986.
- **Spouses:** 100%

Actuarial Assumptions (Continued)

Rates of Retirement, Non-Teachers

Based on gender, group, and hire date.

Age	Hired Pre-April 2, 2012			Hired Post-April 1, 2012		
	Groups 1 and 2 Male	Groups 1 and 2 Female	Group 4	Groups 1 and 2 Male	Groups 1 and 2 Female	Group 4
50	1.00%	1.50%	2.00%	-	-	-
51	1.00%	1.50%	2.00%	-	-	-
52	1.00%	2.00%	2.00%	-	-	-
53	1.00%	2.50%	5.00%	-	-	-
54	2.00%	2.50%	7.50%	-	-	-
55	2.00%	5.50%	15.00%	-	-	10.00%
56	2.50%	6.50%	10.00%	-	-	7.00%
57	2.50%	6.50%	10.00%	-	-	20.00%
58	5.00%	6.50%	10.00%	-	-	10.00%
59	6.50%	6.50%	15.00%	-	-	15.00%
60	12.00%	5.00%	20.00%	25.00%	30.00%	20.00%
61	20.00%	13.00%	20.00%	20.00%	13.00%	20.00%
62	30.00%	15.00%	25.00%	30.00%	15.00%	25.00%
63	25.00%	12.50%	25.00%	25.00%	12.50%	25.00%
64	22.00%	18.00%	30.00%	22.00%	18.00%	30.00%
65	40.00%	15.00%	100.00%	40.00%	15.00%	100.00%
66	25.00%	20.00%	NA	25.00%	20.00%	NA
67	25.00%	20.00%	NA	25.00%	20.00%	NA
68	30.00%	25.00%	NA	30.00%	25.00%	NA
69	30.00%	20.00%	NA	30.00%	20.00%	NA
70	100.00%	100.00%	NA	100.00%	100.00%	NA

Actuarial Assumptions (Continued)

Rates of Retirement, Teachers

Based on gender, years of service, and hire date.

Age	Hired Pre-April 2, 2102						Hired Post-April 1, 2012					
	<20 years Service		20-29 years service		>29 years service		<20 years service		20-29 years service		>29 years service	
	M	F	M	F	M	F	M	F	M	F	M	F
50	N/A	N/A	1%	1%	2%	1.5%	N/A	N/A	N/A	N/A	N/A	N/A
51	N/A	N/A	1	1	2	1.5	N/A	N/A	N/A	N/A	N/A	N/A
52	N/A	N/A	1	1	2	1.5	N/A	N/A	N/A	N/A	N/A	N/A
53	N/A	N/A	1.5	1	2	1.5	N/A	N/A	N/A	N/A	N/A	N/A
54	N/A	N/A	2.5	1	2	2	N/A	N/A	N/A	N/A	N/A	N/A
55	5%	3%	3	3	6	5	N/A	N/A	N/A	N/A	N/A	N/A
56	5	3	6	3	20	15	N/A	N/A	N/A	N/A	N/A	N/A
57	5	4	10	8	40	35	N/A	N/A	N/A	N/A	N/A	N/A
58	5	8	15	10	50	35	N/A	N/A	N/A	N/A	N/A	N/A
59	10	8	20	15	50	35	N/A	N/A	N/A	N/A	N/A	N/A
60	10	10	25	20	40	35	10%	10%	25%	20%	40%	35%
61	20	12	30	25	40	35	20	12	30	25	40	35
62	20	12	35	30	35	35	20	12	35	30	35	35
63	25	15	40	30	35	35	25	15	40	30	35	35
64	25	20	40	30	35	35	25	20	40	30	35	35
65	25	25	40	40	35	35	25	25	40	40	35	35
66	30	25	30	30	40	35	30	25	30	30	40	35
67	30	30	30	30	40	30	30	30	30	30	40	30
68	30	30	30	30	40	30	30	30	30	30	40	30
69	30	30	30	30	40	30	30	30	30	30	40	30
70	100	100	100	100	100	100	100	100	100	100	100	100

Actuarial Assumptions (Continued)

Plan Enrollment Rates

These are the rates which retirees select medical plans, given that they enroll in a medical plan. The selection patterns follow the table below.

Participant Behavior at Key Ages

Status	Age	Pre-65 Retirement	65+ Retirement
Active	Under 65	Commercial Managed Care: 100% Commercial Indemnity: 0%	Medicare Managed Care: 0% Medicare Indemnity: 100% Commercial Managed Care: <1%
Active	65+	NA	Medicare Managed Care: 0% Medicare Indemnity: 100% Commercial Managed Care: <1%
Retired	Under 65	Current Plan	Medicare Managed Care: 0% Medicare Indemnity: 100% Commercial Managed Care: <1% Or Actual Plan if already in Medicare
Retired	65+	NA	Current Plan

Sample Claim Costs

Age-graded claim rates are derived using valuation demographics and aging curves from Health Care Costs – From Birth to Death, published by the Society of Actuaries in June, 2013.

Age	Commercial Managed Care Individual	Commercial Managed Care Blended ⁽¹⁾	Medicare Indemnity	Part B Penalties	Part A Penalties Only	Part A Benefit
55	\$9,852.77	\$15,614.31	\$3,652.68	\$1,550.36	\$565.00	\$5,450.44
60	\$12,094.36	\$19,181.82	\$3,652.68	\$1,550.36	\$565.00	\$5,450.44
65	\$15,158.61	\$15,158.61	\$3,652.68	\$1,550.36	\$565.00	\$5,450.44
70	\$18,302.65	\$18,302.65	\$4,041.70	\$1,550.36	\$565.00	\$5,450.44
75	\$21,880.10	\$21,880.10	\$4,366.13	\$1,550.36	\$565.00	\$5,450.44
80	\$26,046.73	\$26,046.73	\$4,600.39	\$1,550.36	\$565.00	\$5,450.44
85	\$26,046.73	N/A	\$4,722.74	\$1,550.36	\$565.00	\$5,450.44

⁽¹⁾ Blended rates below 65 are 35% Family and 65% Individual. Blended rates 65 and higher are 50% Family and 50% Individual. Individual rates are used for all participants 81 and higher.

Actuarial Assumptions (Continued)

Trend Rates by Plan

Year	Commercial Managed Care	Medicare Indemnity
2022	6.00%	0.00%
2023	7.50%	7.50%
2024	7.50%	7.50%
2025	7.00%	7.00%
2026	6.50%	6.70%
2027	6.00%	6.40%
2028	5.50%	6.10%
2029	5.00%	5.80%
2030	5.00%	5.50%
2031	5.00%	5.20%
2032	5.00%	5.20%
2033	5.00%	5.20%
2034	5.00%	5.20%
2035	5.00%	5.20%
2036	5.00%	5.10%
2037	5.00%	5.10%
2038	5.00%	5.10%
2039	5.00%	5.10%
2040	5.00%	5.10%
2041+	5.00%	5.00%

A flat 5% trend is used for the various Medicare reimbursement benefits.

Trend assumptions are based on the Society of Actuaries’ Getzen model of medical inflation but have been modified by Stone Consulting to account for the cost-shifting which happens from Medicare to commercial plans and from managed care to indemnity plans.

Expenses

Administrative expenses are included in the per capita medical cost assumption.

Actuarial Assumptions (Continued)

Participation Rates

Current retirees and spouses are assumed to continue the same coverage they have as of the valuation date. No future election of coverage is assumed for those retirees and spouses who currently have not elected coverage.

Medical All Retirees: 80%/Indemnity and 70%/Managed Care of the active Town of Andover employees eligible for post-employment medical benefits are assumed to elect Medical Coverage immediately upon retirement. 35% of pre-65 retirees and 50% of post-65 retirees are assumed to elect family plans. Post-65 retirees with Commercial Family coverage are assumed to continue coverage for five years. After five years they are assumed to elect a Medicare plan plus a spouse Medicare plan at the spouse participation rate.

Life All Retirees: 50% of active Town of Andover employees eligible for post-employment medical benefits are assumed to elect Life Insurance coverage immediately upon retirement.

Part A Reimbursement Retirees: 15% of those not automatically eligible for Medicare are assumed to Participate.

For all Retirees: For the Town of Andover plans, 37.5% of spouses pre-65 and 55% of spouses post-65 are assumed to participate.

Participants with no or unknown current coverage (e.g. active employees who do not currently participate in Town of Andover's medical plans) are assumed to elect retiree coverage at the same rates as currently covered active employees. Medicare-eligible retirees currently under age 65 are assumed to elect a Medicare plan option at age 65.

Principal Plan Provisions Recognized in Valuation

ELIGIBILITY FOR BENEFITS

Current retirees, beneficiaries and spouses of the Town of Andover are eligible for medical benefits, as are current employees or spouses who retire with a benefit from the Town of Andover. Survivors of Town of Andover employees and retirees are also eligible for medical benefits. For individuals hired on or after July 1, 2021, employees must work 30 hours per week and be employed in a position with an annual salary of at least \$5,000 to be eligible for OPEB benefits.

MEDICAL BENEFITS

Various medical plans offered by the Town of Andover to its own employees.

MEDICARE REIMBURSEMENTS

Andover reimburses Medical Part B penalties for those retirees paying them. Andover also pays the Medicare Part A benefit and Part A penalty for current retirees hired before April 1, 1986, and not eligible for premium-free Part A. It will also pay the Part A benefit for future retirees who are not eligible for premium-free Part A.

LIFE INSURANCE

Town of Andover retirees are eligible for a \$2,000 life insurance benefit offered by the Town of Andover. Retirees pay 50% of the \$2.32 cost.

RETIREE CONTRIBUTIONS

Based on data provided by the Town of Andover.

Glossary

- **Actuarial Assumptions:** Assumptions as to the occurrence of future events affecting Other Post-employment Benefits such as: mortality rates, disability rates, withdrawal rates, and retirement rates, the discount assumption, and the trend rates.
- **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 and an Actuarial Accrued Liability.
- **Amortization Payment:** The portion of the OPEB contribution designed to pay interest and to amortize the Unfunded Actuarial Accrued Liability.
- **Actuarially Determined Contribution (ADC):** The employer's periodic contributions to a defined benefit OPEB plan, calculated in accordance with the Actuarial Standards of Practice.

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- **Commercial Plans:** Plans designed to cover the medical expenses of those not otherwise covered by Medicare.
- **GASB:** The Governmental Accounting Standards Board is the organization that establishes financial reporting standards for state and local governments.
- **Implicit Subsidy:** The difference between retirees' actual incurred costs for medical coverage and the total premiums charged for such coverage. In group insurance, premiums for younger active employees are implicitly overstated to subsidize the higher utilization by retirees, and this overstatement is considered a contribution to the Plan.
- **Investment return Assumptions (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, the intensity of the delivery of services, technological developments, and cost-shifting.
- **Medicare Plans:** Medical plans sold to those over 65 who are also covered by Medicare. These plans are supplemental to the Medicare plan, which is considered primary.
- **Net OPEB Liability:** The portion of the Total OPEB Liability that is not covered by plan assets. For a plan that is completely unfunded, this amount is equivalent to the Total OPEB Liability.
- **Normal Cost:** The portion of the Actuarial Present value of plan benefits that is allocated to a valuation year by the Actuarial Cost Method. Referred to as Service Cost in GASB valuations.
- **OPEB:** Other Post-Employment Benefits, other than pensions. This does not include plans such as severance plans or sick-time buyouts.
- **Pay-As-You-Go:** The value of benefits (claims) paid out to plan participants during the year. This is estimated using premium amounts and age-related claim costs from *Health Care Costs – From Birth to Death*, published by the Society of Actuaries in June 2013.
- **Per Capita Claims Cost:** The current average annual cost of providing postretirement health care benefits per individual.
- **Service Cost:** The portion of the Actuarial Present value of plan benefits that is allocated to a valuation year by the Actuarial Cost Method. Referred to as Normal Cost in funding valuations.
- **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 Service Costs.

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- **Valuation Date:** The point from which all future plan experience is projected and as of which all present values are calculated.