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MARKHOFF LLP**
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*A Limited Liability Partnership
Including a Professional Corporation*

March 29, 2012

BY E-MAIL & FIRST CLASS MAIL
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Mr. Justin L. Cole
Town Accountant & Auditor
Town of Uxbridge
21 South Main Street
Town Hall; Room 105
Uxbridge, MA 01569

Re: Town of Uxbridge
Retiree Medical Actuarial Valuation under GASB #45
For the Year Ended June 30, 2011

Dear Justin:

Enclosed are two copies (one bound and one unbound copy) of your FYE 2011 GASB #45 actuarial valuation report for your retiree medical and life program. The unbound report is to facilitate any additional copying you may need.

The GASB #45 Expense (the Annual OPEB Cost) for FYE 2011 is \$4,290,000. The OPEB Obligation as of June 30, 2011 is \$8,640,000.

Of the \$4,290,000 Annual OPEB Cost, \$4,141,000 is attributed to the General Fund, \$43,000 is attributed to the Water Fund, \$80,000 is attributed to the Wastewater Fund, and \$26,000 is attributed to the Ambulance/EMT Fund.

Of the \$8,640,000 OPEB Obligation, \$8,341,000 is attributed to the General Fund, \$87,000 is attributed to the Water Fund, \$160,000 is attributed to the Wastewater Fund, and \$52,000 is attributed to the Ambulance/EMT Fund.

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The increase in Annual OPEB Cost is primarily attributed to changes in various actuarial assumptions (including mortality, percentage of actives married and health care cost trend rate), and medical premium increases since 2008/09.

Please give me a call if you have any questions.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Edward A. Echeverria', written in a cursive style.

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

EAE/ljp
Enclosures

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TOWN OF UXBRIDGE
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 ENDING JUNE 30, 2011

PREPARED ON: March 2012

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**DANZIGER &
MARKHOFF LLP**
Attorneys at Law

March 2012

Town of Uxbridge
21 South Main Street
Town Hall; Room 105
Uxbridge, MA 01569

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, 2011.

Our results and accompanying disclosures reflect plan provisions in effect for the plan year ended June 30, 2011. The Annual OPEB Cost for the Town for the year is \$4,290,000.

In conducting the valuation, we relied on information supplied to us by the Town of Uxbridge. 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 4.5%.

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 UXBRIDGE
RETIREE HEALTH VALUATION UNDER GASB #45

EXECUTIVE SUMMARY OF RESULTS

Valuation Date	<u>July 1, 2010</u>	
Number of Plan Members:	<u>Medical</u>	<u>Life Ins.</u>
Active Participants	258	258
Retired Participants	<u>124</u>	<u>77</u>
Total	382	335
Average Age of Actives	48 yrs.	
Average Credited Service of Actives	13 yrs.	
Current Covered Payroll	\$ 17,650,000	
Market value of assets as of July 1	\$ -0-	
Unfunded Accrued Liability	\$ 40,250,000	
Annual Required Contribution (ARC)	\$ 4,360,000	
OPEB Cost for the Year	\$ 4,290,000	

TOWN OF UXBRIDGE
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES

Results have been presented rounded to the nearest \$10,000.

<u>VALUATION RESULTS - (Cost to Town)</u>		(EPBO) Projected <u>Benefits</u>	(APBO) Unit Credit Accrued <u>Liability</u>
1.	Actuarial present values as of July 1, 2010:		
	(a) Actives	\$ 44,710,000	\$ 24,090,000
	(b) Retirees & Beneficiaries	<u>\$ 16,160,000</u>	<u>\$ 16,160,000</u>
	(c) Total	\$ 60,870,000	\$ 40,250,000
2.	Accrued liability as of July 1, 2010	\$ 40,250,000	
3.	Actuarial value of assets, July 1, 2010	\$ -0-	
4.	Unfunded accrued liability, July 1, 2010	\$ 40,250,000	
5.	Normal cost As of July 1, 2010	\$ 1,810,000	
6.	Amortization of unfunded accrued liability (percentage of payroll basis/open over 30 years)	\$ 2,360,000	
7.	Interest (rounded) on Normal Cost (\$82,470) and Amortization (\$107,530)	\$ 190,000	
8.	Annual Required Contribution (ARC) (5+6+7)	\$ 4,360,000	

TOWN OF UXBRIDGE
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES

Below is a presentation of valuation results, broken down between Medical and Life Insurance.
(Dental is paid 100% by the retiree, so the employer's obligation is zero)

Actuarial present values as of July 1, 2010

		(EPBO) Projected Benefits
1.	(a) Medical	\$ 60,530,000
	(b) Life Insurance	\$ <u>340,000</u>
	(c) Total	\$ 60,870,000

		(APBO) Accrued Liability
2.	(a) Medical	\$ 39,960,000
	(b) Life Insurance	\$ <u>290,000</u>
	(c) Total	\$ 40,250,000

		Normal Cost
3	(a) Medical	\$ 1,800,000
	(b) Life Insurance	\$ <u>10,000</u>
	(c) Total	\$ 1,810,000

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TOWN OF UXBRIDGE
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES

DEVELOPMENT OF THE OPEB COST
FOR THE YEAR ENDED JUNE 30, 2011

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)	\$ 4,360,000
Interest on net OPEB obligation	240,000
Adjustment to annual required contribution (-)	310,000
Annual OPEB cost	\$ 4,290,000
Contributions made*	\$ 890,000
Increase in net OPEB obligation	\$ 3,400,000
Net OPEB obligation-beginning of year	\$ <u>5,240,000</u>
Net OPEB obligation-end of year	\$ <u>8,640,000</u>

*Contributions made include Medical, Life and Medicare Part B premium payments of \$850,000 and Medicare Part D reimbursement of \$40,000.

TOWN OF UXBRIDGE
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES

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

Actuarial accrued liability (a)	\$ 40,250,000
Actuarial value of plan assets (b)	\$ 0
Unfunded actuarial accrued liability (a – b)	\$ 40,250,000
Funded ratio (b / a)	0.0%
Covered payroll (c)	\$ 17,650,000
Unfunded actuarial accrued liability as percentage of covered payroll [(a – b) / c]	228%

TOWN OF UXBRIDGE
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>
6/30/2009	\$3,350,000	21.8%	\$2,620,000
6/30/2010	\$3,350,000	21.8%	\$5,240,000
6/30/2011	\$4,290,000	20.7%	\$8,640,000

Entries for FYE 2009 and 2010 were provided from the FYE 2010 financial statement.

TOWN OF UXBRIDGE
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS (actual)

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Unit Credit <u>(b)</u>	Unfunded AAL (UAAL) <u>(b - a)</u>	Funded Ratio <u>(a / b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>[(b - a) / c]</u>
7/1/2008	\$0	\$31.00M	\$31.00M	0.0%	\$15.44M	201%
7/1/2009	\$0	\$31.00M	\$31.00M	0.0%	\$15.44M	201%
7/1/2010	\$0	\$40.25M	\$40.25M	0.0%	\$17.65M	228%

Entries for FYE 2009 and 2010 were provided from the FYE 2010 financial statement.

TOWN OF UXBRIDGE
RETIREE HEALTH VALUATION UNDER GASB #45

CONSIDERATIONS

NEW STATEMENT

Government Accounting Standards Board Statement No. 45 (GASB #45) is applicable to the Town of Uxbridge 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 not to pre-fund retiree medical and other OPEB benefits in a Trust. To 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 UXBRIDGE
RETIREE HEALTH VALUATION UNDER GASB #45

CONSIDERATIONS

For FYE 2011 (for Medical), there are 124 retirees plus dependents who are receiving employer subsidized benefits. We reflected known retirements and terminations in our database through June 30, 2010. Where data was missing or inaccurate, we assumed reasonable estimates. In all, we valued 258 active employees plus dependents.

Retiree medical and life coverage are provided via various insurance arrangements (as well as dental, which is 100% funded by the retiree).

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 9.5% for the first year, decreases by 0.5% per year through year 10 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 UXBRIDGE
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 retiree premium rates provided to us by the Town include:

- | | |
|----------------------------|--|
| a) Individual Pre-age 65: | Generally between \$386 and \$774 per month. |
| b) Family Pre-age 65: | Generally between \$1,016 and \$2,031 per month. |
| c) Individual Post-age 65: | Generally between \$190 and \$774 per month. |
| d) Family Post-age 65: | Generally between \$380 and \$2,031 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.

2. **MEDICARE PART B PREMIUMS** – Generally, \$75/mo. is paid by the Town.

TOWN OF UXBRIDGE
RETIREE HEALTH VALUATION UNDER GASB #45

SUMMARY OF PLAN PROVISIONS

3. **ELIGIBILITY:**

- a) All benefits:
An employee may retire after age 55 with at least 10 years of service, or after completion of at least 20 years of service (no age requirement).
- b) Spousal benefit upon retiree's death:
Coverage continued; spouse pays under current arrangement.
- c) Active service death benefit: N/A

4. **TOWN SUBSIDY:**

The Town will generally contribute 80% of the medical premium amounts for both individual and dependent coverage.

5. **LIFE INSURANCE:**

Generally, coverage of \$10,000 is offered upon retirement. The total rate per \$1,000 is \$7.27/yr., of which 50% is paid by the Town. An adjustment of the blended rate has been made to develop a retiree-only rate in the actuarial valuation.

TOWN OF UXBRIDGE
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). The Town has chosen not to pre-fund retiree medical benefit obligations in a Trust at this time.

Medicare Part D reimbursement by CMS is also considered an "employer contribution" for GASB #45 purposes.

TOWN OF UXBRIDGE
RETIREE HEALTH VALUATION UNDER GASB #45

ACTUARIAL BASIS

ACTUARIAL FUNDING METHOD: Projected Unit Credit

ACTUARIAL ASSUMPTIONS

- | | |
|--------------------|---|
| 1. Valuation Date: | July 1, 2010 |
| 2. Discount Rate: | 4.5% per annum. |
| 3. Salary Scale: | Not applicable. |
| 4. Mortality: | RP-2007 Combined Table
(sex-distinct). |
| 5. Withdrawal: | Sarasson T-5 Table. |
| 6. Disability: | N/A |

TOWN OF UXBRIDGE
RETIREE HEALTH VALUATION UNDER GASB #45

ACTUARIAL BASIS

7. Retirement:

The following table illustrates the retirement rates:

All eligibles (10 years of service required at retirement)	Retirement	Retirement
	<u>Age</u>	<u>Rates</u>
	55	25.0%
	56	3.0%
	57	3.0%
	58	3.0%
	59	3.0%
	60	5.0%
	61	5.0%
	62	5.0%
	63	5.0%
	64	5.0%
	65	100.0%

TOWN OF UXBRIDGE
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>Assumed Increase</u>
1	9.5%
2	9.0%
3	8.5%
4	8.0%
5	7.5%
6	7.0%
7	6.5%
8	6.0%
9	5.5%
10+	5.0%

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:

Eligible retirees are expected to participate as follows:

Medical:	80%
Life Ins.	100%

ASSET VALUATION METHOD: Market value.

AMORTIZATION BASIS: Level dollar basis/open; over 30 years.