**Town of Norton Other**
**Postemployment Benefits Plan**

**GASB 45 Actuarial Valuation**

*as of*

July 1, 2009

For the fiscal year ending

June 30, 2010

Delivered August 2010

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LETTER

August 12, 2010

***Personal and Confidential***

Mr. James Puello
Town Accountant
Town of Norton
70 East Main Street
Norton, MA 02766

Dear Mr. Puello:

We have performed an actuarial valuation of the Town of Norton Other Postemployment Benefits Plan for the fiscal year ending June 30, 2010. The figures presented in this report reflect the adoption, by the Town of Norton, of Statement No. 45 of the Governmental Accounting Standards Board ("GASB 45") effective July 1, 2008.

The financial results of the actuarial valuation are summarized in the report. The Executive Summaries highlight the results of the valuation. Additional information summarizing census data, actuarial assumptions, claim rates and the methodology for developing them, as well as a glossary of selected terms used in this study, is also included in the report.

All costs, liabilities and other factors under the plan were determined in accordance with generally accepted actuarial principles and procedures. In our opinion, the actuarial assumptions used are reasonable, taking into account the experience of the plan and reasonable expectations and, in combination, represent our best estimate of the anticipated experience under the plan.

We refer you to Section I of this report for a detailed summary and commentary on the results of the valuation and a comparison with the prior valuation. Section II is a summary of the plan provisions, and Section III describes the actuarial cost method and assumptions. Details for cost calculations, supporting data, and disclosures are provided in Exhibits A through C.

We will be pleased to answer any questions that you may have regarding this actuarial valuation report.

Very truly yours,

Parker E. Elmore, A.S.A., E.A., M.A.A.A.
President & CEO

Enclosure

# SECTION I

## PRINCIPAL RESULTS OF THE VALUATION

### Town of Norton
### Comparison of Plan Liabilities to Prior Valuation

| | | July 1, 2009 | July 1, 2008 |
|---|---|---|---|
| I. | Actuarial Accrued Liability (Projected Unit Credit) | | |
| | A. Actives | 19,442,034 | 18,411,304 |
| | B. Retirees/Disabled | 31,187,902 | 17,953,310 |
| | C. Total | 50,629,936 | 36,364,614 |
| II. | Plan Assets | 0 | 0 |
| III. | Unfunded Actuarial Accrued Liability ("UAAL") | 50,629,936 | 36,364,614 |
| IV. | Funded Ratio | 0.00% | 0.00% |
| V. | Unrecognized Transition Obligation | 33,448,552 | 36,364,614 |
| VI. | Annual Covered Payroll | N/A | N/A |
| VII. | UAAL as % of Covered Payroll | N/A | N/A |
| VIII. | Net OPEB Obligation | 4,592,376 | 2,423,711 |
| IX. | Number of Covered Participants | | |
| | A. Actives | 391 | 485 |
| | B. Retirees/Disabled | 284 | 250 |
| | C. Total | 675 | 735 |
| | **For the Fiscal Year Ending:** | **June 30, 2010** | **June 30, 2009** |
| X. | Normal Cost | 1,469,192 | 1,285,519 |
| XI. | Amortization of UAAL - 30 year flat dollar | 2,191,474 | 2,191,474 |
| XII. | Annual Required Contribution ("ARC") [ IX. + X.] | 3,660,666 | 3,476,993 |
| XIII. | Interest on Net OPEB Obligation | 183,695 | 182,542 |
| XIV. | Adjustment to Annual Required Contribution | (265,002) | (224,297) |
| XV. | Annual OPEB Cost [XI. + XII. + XIII.] | 3,579,359 | 3,435,238 |
| XVI. | Expected Employer Contribution | 1,678,298 | 1,266,573 |
| XVII. | Percentage of Annual OPEB Cost Contributed | 46.9% | 36.9% |
| XVIII. | Net OPEB Obligation at Beginning of Year (VII.) | 4,592,376 | 2,423,711 |
| XIX. | Increase in Net OPEB Obligations (XIV. - XV.) | 1,901,061 | 2,168,665 |
| XX. | Net OPEB Obligation at End of Year (XVII. + XVIII.) | 6,493,437 | 4,592,376 |
| XXI. | Discount Rate | 4.00% | 5.25% |

## SECTION I

## PRINCIPAL RESULTS OF THE VALUATION
(continued)

### Town of Norton
### Plan Liabilities as of July 1, 2009

| | | Medical | Dental | Life | Total |
|---|---|---|---|---|---|
| I. | Actuarial Accrued Liability (Projected Unit Credit) | | | | |
| | A. Actives | 19,390,644 | 0 | 51,390 | 19,442,034 |
| | B. Retirees/Disabled | 31,055,541 | 0 | 132,361 | 31,187,902 |
| | C. Total | 50,446,185 | 0 | 183,751 | 50,629,936 |
| II. | Plan Assets | 0 | 0 | 0 | 0 |
| III. | Unfunded Actuarial Accrued Liability ("UAAL") | 50,446,185 | 0 | 183,751 | 50,629,936 |
| IV. | Unrecognized Transition Obligation | 33,163,148 | 0 | 285,404 | 33,448,552 |
| V. | Annual Covered Payroll | N/A | N/A | N/A | N/A |
| VI. | UAAL as % of Covered Payroll | N/A | N/A | N/A | N/A |
| VII. | Net OPEB Obligation | 4,575,709 | 0 | 16,667 | 4,592,376 |
| VIII. | Number of Covered Participants | | | | |
| | A. Actives | 391 | 0 | 391 | |
| | B. Retirees/Disabled | 284 | 0 | 155 | |
| | C. Total | 675 | 0 | 546 | |
| | **For Fiscal Year Ending June 30, 2010** | | | | |
| IX. | Normal Cost | 1,465,853 | 0 | 3,339 | 1,469,192 |
| X. | Amortization of UAAL - 30 year flat dollar | 2,172,775 | 0 | 18,699 | 2,191,474 |
| XI. | Annual Required Contribution ("ARC") [ IX. + X.] | 3,638,628 | 0 | 22,038 | 3,660,666 |
| XII. | Interest on Net OPEB Obligation | 183,028 | 0 | 667 | 183,695 |
| XIII. | Adjustment to Annual Required Contribution | (264,040) | 0 | (962) | (265,002) |
| XIV. | Annual OPEB Cost [XI. + XII. + XIII.] | 3,557,616 | 0 | 21,743 | 3,579,359 |
| XV. | Expected Employer Contribution | 1,672,137 | 0 | 6,161 | 1,678,298 |
| XVI. | Percentage of Annual OPEB Cost Contributed | 47.0% | 0.0% | 28.3% | 46.9% |
| XVII. | Net OPEB Obligation at Beginning of Year (VII.) | 4,575,709 | 0 | 16,667 | 4,592,376 |
| XVIII. | Increase in Net OPEB Obligations (XIV. - XV.) | 1,885,479 | 0 | 15,582 | 1,901,061 |
| XIX. | Net OPEB Obligation at End of Year (XVII. + XVIII.) | 6,461,188 | 0 | 32,249 | 6,493,437 |

## Commentary on Plan Experience and Contribution Amounts

1. **Transition to GASB 45:**

The Plan adopted and implemented GASB 45 ("Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions") effective for the fiscal year ending June 30, 2007. As part of this implementation, the Employer must recognize the Actuarial Accrued Liability for past service. Under GASB 45, this amount may be amortized over a period not to exceed thirty (30) years. We utilized a 30 year period and a flat dollar amortization of the Unfunded Actuarial Accrued Liability ("UAAL") at transition. This approach yields an amortization charge of $2,191,474. Additionally the Employer must recognize a "normal cost" which represents the annual accrual of benefits for current active employees toward their ultimate postemployment benefits. The normal cost for the 2010 fiscal year is $1,469,192. The combined amortization charge and normal cost represent the Annual Required Contribution ("ARC") for the plan for the 2010 fiscal year. As the Employer has chosen to continue their "pay-as-you-go" funding policy, this valuation must utilize a discount rate which represents earnings on short term investments. For this discount rate, we have used 4.00% per annum. The incremental cost of GASB 45 for the 2010 fiscal year beyond the "pay-as-you-go" costs is $1,901,061.

2. **Plan Experience**

Plan experience was much less favorable than expected. To better reflect available short term investments we assumed a 4.00% discount rate as opposed to the 5.25% discount rate in the prior valuation - this change increased the Actuarial Accrued Liability by approximately $6.8 million. Additionally, there were 17 more retirees than expected, including a disability retiree with a $500,000 accrued benefit (would have been $3,500 were he still active) - this increased the Actuarial Accrued Liability by approximately $1.2 million. During the two-year cycle overall premium rates increased by approximately 25.9% vs. an expected increase premiums of 19.9% - this increased the Actuarial Accrued Liability by approximately $2.5 million.

## SECTION II

## SUMMARY OF PLAN PROVISIONS

| | |
|---|---|
| Effective Date | July 1, 2007; GASB 45 is adopted. |
| Plan Year | July 1 through June 30. |
| Eligibility | An employee shall become eligible to retire under this plan upon attainment of age 55 as an active member and completion of 10 years of service. |
| Credited Service | Elapsed time from date of hire to termination of service date. |
| Participant Contributions | 25% of premiums |
| Benefits Offered | Various Medical Insurance offerings via the Blue Cross Blue Shield of Massachusetts, Comprehensive Dental Insurance and Group Term Life Insurance through Boston Mutual. |
| Normal Retirement Date | The normal retirement date is the first day of the month following a participant's 65th birthday. |
| Early Retirement | Early retirement is available for any participant who has attained benefit eligibility. |

## SECTION III

## ACTUARIAL COST METHOD, ASSET VALUATION METHOD AND ACTUARIAL ASSUMPTIONS

### A. ACTUARIAL COST METHOD

The actuarial cost method used to calculate the costs and liabilities of the plan is the Projected Unit Credit Actuarial Cost Method. Under this method, the normal cost and actuarial accrued liability are both based on an accrual of projected benefits over the period for which benefits are accrued. The normal cost is the actuarial present value of one year's benefit accrual on this basis. The actuarial accrued liability is the actuarial present value of the projected benefit times the ratio of past service to total service.

Actuarial gains and losses are calculated each year and amortized over the minimum and maximum periods allowed by law from the year of such gain or loss.

All employees who are plan participants on a valuation date are included in the actuarial valuation.

### B. ASSET VALUATION METHOD

The actuarial value of assets is equal to the Market Value of the Plan's assets.

## SECTION III

## ACTUARIAL COST METHOD, ASSET VALUATION METHOD AND ACTUARIAL ASSUMPTIONS
(continued)

### C. ACTUARIAL ASSUMPTIONS

We used the following assumptions in this year's actuarial valuation:

Pre- and Post-Retirement Mortality — It is assumed that both pre-retirement and post-retirement mortality are represented by the RP-2000 Mortality Table for males and females.

Discount Rate — 4.00% per annum (previously 5.25%)

Employee Termination — It was assumed that employees would terminate employment in accordance with the sample rates shown in the following table:

| **Service** | **Male** | **Female** |
|---|---|---|
| 0 | 15.0% | 15.0% |
| 10 | 5.4% | 5.4% |
| 20 | 2.0% | 2.0% |
| 30 | 0.0% | 0.0% |

## SECTION III

## ACTUARIAL COST METHOD, ASSET VALUATION METHOD AND ACTUARIAL ASSUMPTIONS

(continued)

Retirement Rates

It was assumed that the following percentage of eligible employees would retire each year:

| Age | Male | Female |
|---|---|---|
| 50 | 1.0% | 1.5% |
| 51 | 1.0% | 1.5% |
| 52 | 1.0% | 2.0% |
| 53 | 1.0% | 2.5% |
| 54 | 2.0% | 2.5% |
| 55 | 2.0% | 5.5% |
| 56 | 2.5% | 6.5% |
| 57 | 2.5% | 6.5% |
| 58 | 5.0% | 6.5% |
| 59 | 6.5% | 6.5% |
| 60 | 12.0% | 5.0% |
| 61 | 20.0% | 13.0% |
| 62 | 30.0% | 15.0% |
| 63 | 25.0% | 12.5% |
| 64 | 22.0% | 18.0% |
| 65 | 40.0% | 15.0% |
| 66 | 25.0% | 20.0% |
| 67 | 25.0% | 20.0% |
| 68 | 30.0% | 25.0% |
| 69 | 30.0% | 20.0% |
| 70 | 100.0% | 100.0% |

SECTION III

ACTUARIAL COST METHOD, ASSET VALUATION METHOD
AND ACTUARIAL ASSUMPTIONS
(continued)

## C. ACTUARIAL ASSUMPTIONS (continued)

Healthcare Trend

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

| Year | Medical | Dental |
|---|---|---|
| FY 2008 | 11.0% | 8.5% |
| FY 2009 | 10.0% | 8.0% |
| FY 2010 | 6.4% | 7.5% |
| FY 2011 | 8.0% | 7.0% |
| FY 2012 | 7.0% | 6.5% |
| FY 2013 | 6.0% | 6.0% |
| FY 2014 | 5.0% | 5.5% |
| FY 2015 | 5.0% | 5.0% |

Participation Rate

It was assumed that 80% of the employees covered under the active plan on the day before retirement would enroll in the retiree medical plans upon retirement. All eligible employees were assumed to be covered under the retiree life insurance program.

Percent Married

It was assumed that 80% of the participants who elect retiree healthcare coverage for themselves would also elect coverage for a spouse upon retirement. It was further assumed that husbands are three years older than their wives. For current retirees, the actual census information was used.

## SECTION III

## ACTUARIAL COST METHOD, ASSET VALUATION METHOD AND ACTUARIAL ASSUMPTIONS
(continued)

### C. ACTUARIAL ASSUMPTIONS (continued)

| | |
|---|---|
| Compensation Increases | 4.50% per year. |
| Additional Comments | The values in this report reflect a closed group and do not reflect any new entrants after the valuation date.<br><br>For purposes of this valuation, retiree contributions were assumed to increase with the same trend rate as health care claims. |

## SECTION III

## ACTUARIAL COST METHOD, ASSET VALUATION METHOD AND ACTUARIAL ASSUMPTIONS
(continued)

### D. DEVELOPMENT OF REPRESENTATIVE MEDICAL PER CAPITA CLAIMS COSTS

Initial premiums were developed for the two classes of retirees (pre65 and post-65). These premiums were developed using fully insured premium rates in conjunction with census data for the retired participants of the Town of Norton's medical benefit program.

The pre-65 fully insured premiums are blended rates based on the combined experience of active and pre-65 retired members. Therefore, there is an implicit employer subsidy for the non-Medicare eligible retirees as the average costs of providing healthcare benefits to retirees under age 65 is higher than the average cost of providing healthcare benefits to active employees. The true per-capita cost for the non-Medicare retirees is developed by adjusting the demographic differences between the actives and retirees to reflect this implicit rate subsidy for the retirees. For the Medicare eligible retirees, the premium rate will be used as the basis of the initial pre-capita cost without adjustment as the rate reflects the actual claim experience of the post-65 retiree group.

Age graded and sex distinct premiums are utilized in this valuation. The premiums developed by the preceding process are appropriate for the existing unique age and sex distribution. Over the future years covered by this valuation, the age and sex distribution will likely change. Therefore, the process "distributes" the average premium over all age/sex combinations and assigns a unique premium for each specific age/sex combination. The age/sex specific premiums more accurately reflect the healthcare utilization and cost at that age.

Based on guidance provided by GASB on issues related to Medicare Part D payments to State and Local Governments effective as of June 30, 2006, an employer should apply the measurement requirements of GASB Statement No. 45 to determine the actuarial accrued liabilities, the annual required contribution of the employer, and the annual OPEB cost without reduction for Retiree Drug Subsidy (RDS) payments. Therefore, the impact of the RDS that is part of Medicare Prescription Drug Improvement and Modernization Act of 2003 is not reflected in this report.

SECTION III

## ACTUARIAL COST METHOD, ASSET VALUATION METHOD AND ACTUARIAL ASSUMPTIONS
(continued)

## D. DEVELOPMENT OF REPRESENTATIVE MEDICAL PER CAPITA CLAIMS COSTS

### I. CLAIMS COSTS DEVELOPMENT - Based on Active & Retiree Incurred Claims & Premiums

| | Number of Participants | | | |
|---|---|---|---|---|
| | Single | Two-Person | Family | Total |
| HMO Blue New England | 100 | | 299 | 399 |
| BCBS Blue Care Elect | 31 | | 16 | 47 |
| Managed Blue | 119 | | | 119 |
| Medex | 69 | | | 69 |
| Total | 319 | 0 | 315 | 634 |

| | Per Contract Costs (monthly) - FY 2011 | | |
|---|---|---|---|
| | Single | Two-Person | Family |
| HMO Blue New England | 590.14 | | 1,546.25 |
| BCBS Blue Care Elect | 843.26 | | 2,096.34 |
| Managed Blue | 460.88 | 921.76 | |
| Medex | 424.19 | 848.38 | |

| | |
|---|---|
| Gross Expected FY 2011 Incurred Premiums | 7,981,669 |
| Adjustment to reflect children's claims | (1,391,786) |
| Total Expected FY 2011 Incurred Premiums (adults only) | 6,589,883 |

### II. PRE-65 AND POST-65 PER CAPITA RETIREE CLAIM COSTS

| | Employer Primary | Medicare Primary |
|---|---|---|
| Age 65 | 10,941 | 4,376 |
| Average Age | 9,840 | 4,995 |

## SECTION III

## ACTUARIAL COST METHOD, ASSET VALUATION METHOD AND ACTUARIAL ASSUMPTIONS
(continued)

## D. DEVELOPMENT OF REPRESENTATIVE MEDICAL PER CAPITA CLAIMS COSTS

### III. BREAKDOWN OF CLAIM COSTS

6,589,883 Active and Retired Claims (No Children) - Including Administrative fees & trend
60.00% Medicare Integration Percentage

ALL ACTIVE EMPLOYEES AND SPOUSES

| Age Bracket | Number of Females | Number of Males | Female Aging Factor | Male Aging Factor | Aged (F) Average Claims | Aged (M) Average Claims | Age Related Claims |
|---|---|---|---|---|---|---|---|
| 24 & Under | 7 | 3 | 1.312 | 0.549 | 6,712 | 2,809 | 55,411 |
| 25 to 29 | 35 | 13 | 1.312 | 0.591 | 6,712 | 3,024 | 274,232 |
| 30 to 34 | 37 | 26 | 1.312 | 0.712 | 6,712 | 3,643 | 343,062 |
| 35 to 39 | 40 | 43 | 1.312 | 0.850 | 6,712 | 4,349 | 455,487 |
| 40 to 44 | 49 | 46 | 1.312 | 1.000 | 6,712 | 5,116 | 564,224 |
| 45 to 49 | 49 | 43 | 1.456 | 1.193 | 7,449 | 6,103 | 627,430 |
| 50 to 54 | 48 | 58 | 1.599 | 1.441 | 8,180 | 7,372 | 820,216 |
| 55 to 59 | 39 | 40 | 1.740 | 1.753 | 8,902 | 8,968 | 705,898 |
| 60 to 64 | 15 | 23 | 1.968 | 2.102 | 10,068 | 10,754 | 398,362 |
| 65 to 69 | 4 | 3 | 2.168 | 2.316 | 11,091 | 11,849 | 79,911 |
| 70 & Over | 0 | 2 | 2.396 | 2.557 | 12,258 | 13,082 | 26,164 |
| Total | 323 | 300 | | | | | 4,350,397 |

ALL RETIREES AND SPOUSES - NOT MEDICARE ELIGIBLE

| Age Bracket | Number of Females | Number of Males | Female Aging Factor | Male Aging Factor | Aged (F) Average Claims | Aged (M) Average Claims | Age Related Claims |
|---|---|---|---|---|---|---|---|
| 44 & Under | 2 | 4 | 1.312 | 1.000 | 6,712 | 5,116 | 33,888 |
| 45 to 49 | 2 | 0 | 1.456 | 1.193 | 7,449 | 6,103 | 14,898 |
| 50 to 54 | 1 | 4 | 1.599 | 1.441 | 8,180 | 7,372 | 37,668 |
| 55 to 59 | 15 | 6 | 1.740 | 1.753 | 8,902 | 8,968 | 187,338 |
| 60 to 64 | 57 | 27 | 1.968 | 2.102 | 10,068 | 10,754 | 864,234 |
| 65 to 69 | 0 | 1 | 2.168 | 2.316 | 11,091 | 11,849 | 11,849 |
| 70 to 74 | 3 | 3 | 2.396 | 2.557 | 12,258 | 13,082 | 76,020 |
| 75 to 79 | 0 | 0 | 2.593 | 2.769 | 13,266 | 14,166 | 0 |
| 80 to 84 | 1 | 0 | 2.724 | 2.910 | 13,936 | 14,888 | 13,936 |
| 85 to 89 | 0 | 0 | 2.864 | 3.059 | 14,652 | 15,650 | 0 |
| 90 & Over | 0 | 0 | 3.010 | 3.215 | 15,399 | 16,448 | 0 |
| Total | 81 | 45 | | | | | 1,239,831 |

ALL RETIREES AND SPOUSES - MEDICARE ELIGIBLE

| Age Bracket | Number of Females | Number of Males | Female Aging Factor | Male Aging Factor | Aged (F) Average Claims | Aged (M) Average Claims | Age Related Claims |
|---|---|---|---|---|---|---|---|
| 65 to 69 | 52 | 50 | 2.168 | 2.316 | 4,437 | 4,739 | 467,674 |
| 70 to 74 | 23 | 21 | 2.396 | 2.557 | 4,903 | 5,233 | 222,662 |
| 75 to 79 | 14 | 17 | 2.593 | 2.769 | 5,306 | 5,666 | 170,606 |
| 80 to 84 | 6 | 4 | 2.724 | 2.910 | 5,574 | 5,955 | 57,264 |
| 85 to 89 | 4 | 3 | 2.864 | 3.059 | 5,861 | 6,260 | 42,224 |
| 90 & Over | 2 | 4 | 3.010 | 3.215 | 6,160 | 6,579 | 38,636 |
| Total | 101 | 99 | | | | | 999,066 |
| | | | | | | | |
| Grand Totals | 505 | 444 | | | | | 6,589,294 |

<u>EXHIBIT A</u>

<u>Financial Statement Disclosure</u>
(As of July 1, 2009)

The GASB Standards for accounting and financial reporting for postemployment benefits other than pensions requires the following disclosures in the financial statements with regard to the retiree medical and life insurance benefits;

**1. A DESCRIPTION OF THE RETIREE MEDICAL INSURANCE PROGRAM:**

| | |
|---|---|
| a. Plan Type: | Comprehensive Medical via Blue Cross Blue Shield of Massachusetts |
| b. Administrator: | Town of Norton |
| c. Eligibility: | An employee shall become eligible to retire under this plan upon meeting attainment of age 55 as an active member and completion of 10 years of service. |
| d. Cost Sharing: | 25% of premiums |

**2. A DESCRIPTION OF THE DENTAL LIFE INSURANCE PROGRAM:**

| | |
|---|---|
| a. Plan Type: | Comprehensive Dental |
| b. Administrator: | Town of Norton |
| c. Eligibility: | Same as above |
| d. Cost sharing: | 100% of premiums |

**3. A DESCRIPTION OF THE RETIREE LIFE INSURANCE PROGRAM:**

| | |
|---|---|
| a. Plan Type: | Group Term Life Insurance - $2,000 |
| b. Administrator: | Town of Norton |
| c. Eligibility: | Same as above |
| d. Cost sharing: | 25% of premiums |

EXHIBIT A

Financial Statement Disclosure
(As of July 1, 2009)
(continued)

**4. RETIREE MEDICAL, DENTAL AND LIFE INSURANCE CONTRIBUTIONS:**

| | | |
|---|---|---|
| Group | Individual | Family |
| Medical | 25% | 25% |
| Dental | 100% | 100% |
| Life | 25% | N/A |

**5. FUNDING POLICY**

The contribution requirements of plan members and the Town are established and may be amended through Town ordinances. The required contribution is based on the projected pay-as-you-go financing requirements. For the 2010 fiscal year, total Town premiums plus implicit costs for the retiree medical program are $1,678,298.

EXHIBIT A

Financial Statement Disclosure
(As of July 1, 2009)
(continued)

## 6. ANNUAL OPEB COST AND NET OPEB OBLIGATION

The Town's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the Town's annual OPEB costs for the fiscal year, the amount actually contributed to the plan and changes in the Town's net OPEB obligation to the plan:

| | |
|---|---|
| Annual Required Contribution | $3,660,666 |
| Interest on net OPEB obligation | $183,695 |
| Adjustment to annual required contribution | $(265,002) |
| Annual OPEB cost (expense) | $3,579,359 |
| Contributions made | $1,678,298 |
| Increase in net OPEB obligation | $1,901,061 |
| Net OPEB Obligation – beginning of year | $4,592,376 |
| Net OPEB Obligation – end of year | $6,493,437 |

EXHIBIT A

Financial Statement Disclosure
(As of July 1, 2009)
(continued)

The Town's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2010 fiscal year and the two preceding years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Expected Employer Payments | Increase in OPEB Obligation |
|---|---|---|---|
| 06/30/2008 | $3,592,045 | $1,168,334 | $2,423,711 |
| 06/30/2009 | $3,435,238 | $1,266,573 | $2,168,665 |
| 06/30/2010 | $3,579,359 | $1,678,298 | $1,901,061 |
| 06/30/2011 (est.) | $3,540,312 | $1,760,184 | $1,780,128 |
| 06/30/2012 (est.) | $3,496,185 | $1,821,951 | $1,674,234 |

Schedule of Funding Progress:

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability | Unfunded Actuarial Accrued Liability | Funded Ratio | Covered Payroll | UAAL as a % of Covered Payroll |
|---|---|---|---|---|---|---|
| 07/01/2007 | $0 | $34,468,501 | $34,468,501 | 0.0% | N/A | N/A |
| 07/01/2008 | $0 | $36,364,614 | $36,364,614 | 0.0% | N/A | N/A |
| 07/01/2009 | $0 | $50,629,936 | $50,629,936 | 0.0% | N/A | N/A |
| 07/01/2010 (est.) | $0 | $52,437,664 | $52,437,664 | 0.0% | N/A | N/A |
| 07/01/2011 (est.) | $0 | $54,226,934 | $54,226,934 | 0.0% | N/A | N/A |

EXHIBIT A

Financial Statement Disclosure
(As of July 1, 2009)
(continued)

## 7. FUNDED STATUS AND FUNDING PROGRESS

As of July 1, 2009, the most recent valuation date, the plan was 0.0% funded. The actuarial liability for benefits was $50,629,936, and the actuarial value of assets was $0.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $50,629,936. The covered payroll (annual payroll of active employees covered by the plan) was $ N/A and the ratio of the UAAL to the covered payroll was N/A.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented in the required supplementary information following the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

## 8. EFFECT OF 1% CHANGE IN HEALTHCARE TREND RATES

In the event that healthcare trend rates were 1% higher than forecast and employee contributions were to increase at the forecast rates, the Actuarial Accrued Liability would increase to $62,333,093 or by 23.1% and the corresponding Normal Cost would increase to $1,996,514 or by 35.9%. If such healthcare trend rates were 1% less than forecast and employee contributions were to increase at the forecast rate, the Actuarial Accrued Liability would decrease to $41,333,770 or by 18.4% and the corresponding Normal Cost would decrease to $1,074,734 or by 26.8%.

EXHIBIT A

Financial Statement Disclosure
(As of July 1, 2009)
(continued)

## 9. ACTUARIAL METHODS AND ASSUMPTIONS

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial Cost Method: Projected Unit Credit
Investment Rate of Return: 4.00% per annum (previously 5.25%)
Healthcare Trend Rates

| Year | Medical | Dental |
|---|---|---|
| FY 2008 | 11.0% | 8.5% |
| FY 2009 | 10.0% | 8.0% |
| FY 2010 | 6.4% | 7.5% |
| FY 2011 | 8.0% | 7.0% |
| FY 2012 | 7.0% | 6.5% |
| FY 2013 | 6.0% | 6.0% |
| FY 2014 | 5.0% | 5.5% |
| FY 2015 | 5.0% | 5.0% |

General Inflation Assumption: 3.5% per annum
Annual Compensation Increases: 4.5% per annum
Actuarial Value of Assets: Market Value
Amortization of UAAL: Level dollar amortization over 30 years at transition
Remaining Amortization Period: 28 years at July 1, 2009

EXHIBIT B

Reconciliation of Plan Participation
(As of July 1, 2009)

**ACTIVE EMPLOYEES**

| | **July 1, 2009** | **July 1, 2007** |
|---|---|---|
| | | |
| **A. Average Age at Hire** | 34.06 | 34.57 |
| | | |
| **B. Average Service** | 11.15 | 10.82 |
| | | |
| **C. Average Current Age** | 45.21 | 45.39 |

EXHIBIT C

Projected Cash Flows (Closed Group)

## Total Medical, Dental & Life Insurance

| Fiscal Year | Total APBO | Normal Cost | Employer Payments | Active APBO | Expected Annual OPEB Cost | Expected OPEB Obligation |
|---|---|---|---|---|---|---|
| | | | | | | 4,592,376 |
| 2010 | 50,629,936 | 1,469,192 | 1,678,298 | 19,442,034 | 3,579,359 | 6,493,437 |
| 2011 | 52,437,664 | 1,463,802 | 1,760,184 | 20,721,897 | 3,540,312 | 8,273,565 |
| 2012 | 54,226,934 | 1,451,192 | 1,821,951 | 21,887,340 | 3,496,185 | 9,947,799 |
| 2013 | 56,010,421 | 1,432,105 | 1,927,692 | 23,005,534 | 3,447,455 | 11,467,563 |
| 2014 | 57,735,428 | 1,403,798 | 2,003,589 | 23,972,357 | 3,392,242 | 12,856,216 |
| 2015 | 59,421,063 | 1,366,323 | 2,054,130 | 24,726,446 | 3,330,180 | 14,132,266 |
| 2016 | 61,082,588 | 1,321,902 | 2,172,407 | 25,184,264 | 3,263,168 | 15,223,027 |
| 2017 | 62,641,683 | 1,254,098 | 2,287,206 | 25,442,767 | 3,176,052 | 16,111,873 |
| 2018 | 64,073,885 | 1,201,898 | 2,425,482 | 25,296,936 | 3,108,115 | 16,794,506 |
| 2019 | 65,364,613 | 1,146,606 | 2,577,440 | 25,372,111 | 3,040,737 | 17,257,802 |
| 2020 | 66,491,129 | 1,090,368 | 2,726,282 | 25,205,938 | 2,976,296 | 17,507,816 |
| 2021 | 67,449,424 | 1,037,101 | 2,867,474 | 24,921,673 | 2,918,603 | 17,558,945 |
| 2022 | 68,244,127 | 982,739 | 3,011,081 | 24,604,674 | 2,863,336 | 17,411,200 |
| 2023 | 68,864,419 | 927,853 | 3,118,019 | 24,149,051 | 2,811,065 | 17,104,246 |
| 2024 | 69,341,582 | 875,759 | 3,256,570 | 23,565,900 | 2,764,405 | 16,612,081 |
| 2025 | 69,639,506 | 823,232 | 3,411,316 | 22,916,204 | 2,720,593 | 15,921,359 |
| 2026 | 69,733,480 | 770,551 | 3,498,346 | 22,172,567 | 2,680,140 | 15,103,153 |
| 2027 | 69,685,912 | 719,855 | 3,626,919 | 21,338,038 | 2,643,931 | 14,120,165 |
| 2028 | 69,450,002 | 672,296 | 3,767,340 | 20,495,171 | 2,613,776 | 12,966,601 |
| 2029 | 69,009,157 | 627,535 | 3,870,723 | 19,673,283 | 2,589,438 | 11,685,316 |
| 2030 | 68,396,905 | 580,584 | 3,961,445 | 18,811,487 | 2,565,171 | 10,289,042 |
| 2031 | 67,617,250 | 530,802 | 4,048,753 | 17,857,927 | 2,540,111 | 8,780,400 |
| 2032 | 66,663,524 | 484,457 | 4,147,050 | 16,710,319 | 2,520,476 | 7,153,826 |
| 2033 | 65,521,214 | 440,515 | 4,180,982 | 15,588,798 | 2,505,332 | 5,478,176 |
| 2034 | 64,251,976 | 399,419 | 4,203,277 | 14,472,068 | 2,493,903 | 3,768,802 |
| 2035 | 62,866,157 | 360,618 | 4,225,161 | 13,367,382 | 2,485,366 | 2,029,007 |
| 2036 | 61,361,678 | 324,389 | 4,240,628 | 12,278,574 | 2,479,940 | 268,318 |
| 2037 | 59,743,341 | 289,668 | 4,228,236 | 11,261,752 | 2,476,392 | 216,520 |
| 2038 | 58,037,192 | 255,352 | 4,200,562 | 10,253,848 | 251,519 | 200,340 |
| 2039 | 56,255,661 | 223,654 | 4,164,751 | 9,208,837 | 220,107 | 184,703 |
| 2040 | 54,407,145 | 192,566 | 4,122,401 | 8,212,592 | 189,296 | 169,644 |

# EXHIBIT C

## Projected Cash Flows (Closed Group)

(continued)

### Medical Insurance

| Fiscal Year | Total APBO | Normal Cost | Employer Payments | Active APBO | Expected Annual OPEB Cost | Expected OPEB Obligation |
|---|---|---|---|---|---|---|
| | | | | | | 4,575,709 |
| 2010 | 50,446,185 | 1,465,853 | 1,672,137 | 19,390,644 | 3,557,616 | 6,461,188 |
| 2011 | 52,249,498 | 1,460,552 | 1,753,833 | 20,670,707 | 3,518,934 | 8,226,289 |
| 2012 | 54,034,466 | 1,448,052 | 1,815,373 | 21,834,612 | 3,475,183 | 9,886,099 |
| 2013 | 55,813,831 | 1,429,096 | 1,920,851 | 22,951,876 | 3,426,840 | 11,392,088 |
| 2014 | 57,534,959 | 1,400,947 | 1,996,433 | 23,918,283 | 3,372,028 | 12,767,683 |
| 2015 | 59,217,052 | 1,363,622 | 2,046,641 | 24,673,119 | 3,310,348 | 14,031,390 |
| 2016 | 60,875,394 | 1,319,464 | 2,164,516 | 25,131,732 | 3,243,817 | 15,110,691 |
| 2017 | 62,431,867 | 1,251,837 | 2,278,930 | 25,392,833 | 3,157,081 | 15,988,842 |
| 2018 | 63,861,931 | 1,199,814 | 2,416,794 | 25,248,347 | 3,089,510 | 16,661,558 |
| 2019 | 65,151,049 | 1,144,693 | 2,568,329 | 25,325,560 | 3,022,478 | 17,115,707 |
| 2020 | 66,276,509 | 1,088,615 | 2,716,751 | 25,161,548 | 2,958,360 | 17,357,316 |
| 2021 | 67,234,307 | 1,035,509 | 2,857,514 | 24,879,349 | 2,900,977 | 17,400,779 |
| 2022 | 68,029,108 | 981,291 | 3,000,701 | 24,564,840 | 2,845,989 | 17,246,067 |
| 2023 | 68,650,086 | 926,551 | 3,107,221 | 24,111,718 | 2,793,988 | 16,932,834 |
| 2024 | 69,128,551 | 874,579 | 3,245,378 | 23,531,255 | 2,747,561 | 16,435,017 |
| 2025 | 69,428,367 | 822,167 | 3,399,751 | 22,883,971 | 2,703,964 | 15,739,230 |
| 2026 | 69,524,815 | 769,591 | 3,486,437 | 22,142,684 | 2,663,706 | 14,916,499 |
| 2027 | 69,480,288 | 718,991 | 3,614,695 | 21,310,332 | 2,627,673 | 13,929,477 |
| 2028 | 69,247,967 | 671,517 | 3,754,832 | 20,469,499 | 2,597,674 | 12,772,319 |
| 2029 | 68,811,238 | 626,841 | 3,857,971 | 19,649,654 | 2,573,485 | 11,487,833 |
| 2030 | 68,203,608 | 579,970 | 3,948,489 | 18,789,858 | 2,549,355 | 10,088,699 |
| 2031 | 67,429,056 | 530,257 | 4,035,648 | 17,838,375 | 2,524,414 | 8,577,465 |
| 2032 | 66,480,864 | 483,972 | 4,133,851 | 16,692,561 | 2,504,885 | 6,948,499 |
| 2033 | 65,344,470 | 440,087 | 4,167,743 | 15,572,649 | 2,489,840 | 5,270,596 |
| 2034 | 64,081,486 | 399,042 | 4,190,055 | 14,457,543 | 2,478,502 | 3,559,043 |
| 2035 | 62,702,206 | 360,285 | 4,212,020 | 13,354,368 | 2,470,048 | 1,817,071 |
| 2036 | 61,204,490 | 324,097 | 4,227,625 | 12,266,878 | 2,464,701 | 54,147 |
| 2037 | 59,593,084 | 289,416 | 4,215,426 | 11,251,280 | 2,461,232 | 0 |
| 2038 | 57,893,984 | 255,133 | 4,187,996 | 10,244,632 | 255,133 | 0 |
| 2039 | 56,119,566 | 223,468 | 4,152,475 | 9,200,732 | 223,468 | 0 |
| 2040 | 54,278,181 | 192,409 | 4,110,455 | 8,205,572 | 192,409 | 0 |

EXHIBIT C

Projected Cash Flows (Closed Group)
(continued)

## Dental Insurance

| Fiscal Year | Total APBO | Service Cost | Employer Payments | Active APBO | Expected Annual OPEB Cost | Expected OPEB Obligation |
|---|---|---|---|---|---|---|
| | | | | | | 0 |
| 2010 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2011 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2012 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2013 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2014 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2015 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2016 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2017 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2018 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2019 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2020 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2021 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2022 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2023 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2024 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2025 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2026 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2027 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2028 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2029 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2030 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2031 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2032 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2033 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2034 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2035 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2036 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2037 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2038 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2039 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2040 | 0 | 0 | 0 | 0 | 0 | 0 |

## EXHIBIT C

## Projected Cash Flows (Closed Group)
(continued)

### Life Insurance

| Fiscal Year | Total APBO | Normal Cost | Employer Payments | Active APBO | Expected Annual OPEB Cost | Expected OPEB Obligation |
|---|---|---|---|---|---|---|
| | | | | | | 16,667 |
| 2010 | 183,751 | 3,339 | 6,161 | 51,390 | 21,743 | 32,249 |
| 2011 | 188,166 | 3,250 | 6,351 | 51,190 | 21,378 | 47,276 |
| 2012 | 192,468 | 3,140 | 6,578 | 52,728 | 21,002 | 61,700 |
| 2013 | 196,590 | 3,009 | 6,841 | 53,658 | 20,616 | 75,475 |
| 2014 | 200,469 | 2,851 | 7,156 | 54,074 | 20,214 | 88,533 |
| 2015 | 204,011 | 2,701 | 7,489 | 53,327 | 19,832 | 100,876 |
| 2016 | 207,194 | 2,438 | 7,891 | 52,532 | 19,351 | 112,336 |
| 2017 | 209,816 | 2,261 | 8,276 | 49,934 | 18,971 | 123,031 |
| 2018 | 211,954 | 2,084 | 8,688 | 48,589 | 18,605 | 132,948 |
| 2019 | 213,564 | 1,913 | 9,111 | 46,551 | 18,258 | 142,095 |
| 2020 | 214,620 | 1,753 | 9,531 | 44,390 | 17,936 | 150,500 |
| 2021 | 215,117 | 1,592 | 9,960 | 42,324 | 17,626 | 158,166 |
| 2022 | 215,019 | 1,448 | 10,380 | 39,834 | 17,347 | 165,133 |
| 2023 | 214,333 | 1,302 | 10,798 | 37,333 | 17,077 | 171,412 |
| 2024 | 213,031 | 1,180 | 11,192 | 34,645 | 16,844 | 177,064 |
| 2025 | 211,139 | 1,065 | 11,565 | 32,233 | 16,630 | 182,129 |
| 2026 | 208,665 | 960 | 11,909 | 29,883 | 16,434 | 186,654 |
| 2027 | 205,624 | 864 | 12,224 | 27,706 | 16,258 | 190,688 |
| 2028 | 202,035 | 779 | 12,508 | 25,672 | 16,102 | 194,282 |
| 2029 | 197,919 | 694 | 12,752 | 23,629 | 15,953 | 197,483 |
| 2030 | 193,297 | 614 | 12,956 | 21,629 | 15,816 | 200,343 |
| 2031 | 188,194 | 545 | 13,105 | 19,552 | 15,697 | 202,935 |
| 2032 | 182,660 | 485 | 13,199 | 17,758 | 15,591 | 205,327 |
| 2033 | 176,744 | 428 | 13,239 | 16,149 | 15,492 | 207,580 |
| 2034 | 170,490 | 377 | 13,222 | 14,525 | 15,401 | 209,759 |
| 2035 | 163,951 | 333 | 13,141 | 13,014 | 15,318 | 211,936 |
| 2036 | 157,188 | 292 | 13,003 | 11,696 | 15,238 | 214,171 |
| 2037 | 150,257 | 252 | 12,810 | 10,472 | 15,159 | 216,520 |
| 2038 | 143,208 | 219 | 12,566 | 9,216 | (3,614) | 200,340 |
| 2039 | 136,095 | 186 | 12,276 | 8,105 | (3,361) | 184,703 |
| 2040 | 128,964 | 157 | 11,946 | 7,020 | (3,113) | 169,644 |

EXHIBIT D

## GLOSSARY

**Accrual Accounting -** A system of accounting in which revenues are recorded when earned and outlays are recorded when goods are received or services performed, even though the actual receipt of revenues and payment for goods or services may occur, in whole or in part, at a different time.

**Actuarial Value of Assets –** The value of cash, investments, other assets and property belonging to an OPEB trust, pension fund or similar entity, as used by the actuary for the purpose of actuarial valuation. Some funds may be restricted for other purposes, and "smoothing" of investment gains and losses often make the actuarial value of assets different from the market value of assets.

**Annual Required Contribution –** Normal Cost plus an amortization of the funding shortfall over a period of no more than 30 years.

**Cash Basis Accounting -** A system of accounting in which revenues are recorded when actually received and outlays are recorded when payment is made.

**Discount Rate –** The interest rate used to calculate present value of a series of future cash flows. Under GASB 45, the rate should be "long term expected yield on the investments that are expected to be used to pay benefits as they come due. These would be plan investments for a funded plan, the employer's investments for a pay as you go plan [e.g. short term county investment pool], or a weighted average of expected plan and employer investments for a plan that is partially funded".

**FASB – Financial Accounting Standards Board. "**Since 1973, the Financial Accounting Standards Board (FASB) has been the designated organization in the private sector for establishing standards of financial accounting and reporting".

**GASB - Government Accounting Standards Board. "**The Governmental Accounting Standards Board (GASB) was organized in 1984 by the Financial Accounting Foundation (FAF) to establish standards of financial accounting and reporting for state and local governmental entities. Its standards guide the preparation of external financial reports of those entities."

**GFOA – Government Finance Officers Association. "**GFOA is the professional association of state/provincial and local finance officers in the United States and Canada, and has served the public finance profession since 1906. Approximately 16,000 GFOA members are dedicated to the sound management of government financial resources."

EXHIBIT D

## GLOSSARY

*(continued)*

**Implicit Subsidy –** "The difference between a premium rate charged to retirees for a particular benefit and the estimated rate that would have be applicable to those retirees if that benefit was acquired for them as a separate group."

**Irrevocable Contribution – "**Irrevocably transferred assets to a qualifying trust, or equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer(s) or plan administrator. The preceding criteria preclude counting as [irrevocable] contributions (a) designations of net assets of a governmental or proprietary fund to be used for OPEB or (b) internal transfers of assets to a separate governmental or proprietary fund for the same purpose. Rather, such actions should be regarded as earmarking of employer assets."

**Level Dollar Amortization –** Funding a shortfall in OPEB assets with equal dollar payments over a designated number of years (no more than 30 years). The present value of the level payments equals the present value of unfounded liabilities, the UAAL.

**Level Percent of Payroll Amortization –** Funding a shortfall in OPEB assets as a level percent of payroll over a designated number of years (no more than 30 years). The present value of the payments equals the present value of unfounded liabilities, the UAAL. Level percent of payroll typically has lower payments in the early years than level dollar amortization. When using level payroll amortization, employee count is assumed to be constant, and the payroll differences arise from overall wage trends.

**Normal Cost -** The actuarially determined present value contribution needed to fund benefits which are earned for employee service rendered during the current year. Normal cost depends on many factors, including the interest rate used to discount future cashflows, and expected inflation.

**OPEB –** Other Post Employment Benefits

**OPEB Trust –** An entity other than a pension or retirement system which manages OPEB assets. In many respects it is similar to a pension fund for OPEB. For reasons detailed in GASB 45, contributions to an OPEB trust should be irrevocable in order to obtain the most favorable accounting treatment.

EXHIBIT D

## GLOSSARY

*(continued)*

**Pay-as-you-go funding –** Paying benefits (such as pensions or OPEB) on a cash basis, with no money set aside for future liabilities which are already incurred.

**POB –** Pension Obligation Bond. Generally yielding taxable interest, POBs are issued to help fund a previously unfunded or underfunded pension liability.

**UAAL –** Unfunded Accrued Actuarial Liability. Actuarial Accrued Liability minus the Actuarial Value of Assets.