# JUNE 30, 2011
# ACTUARIAL VALUATION OF
# THE POST RETIREMENT BENEFITS PLAN
# OF
# THE TOWN OF WESTWOOD

**January 2012**

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## SECTION I - OVERVIEW

The Town of Westwood has engaged Buck Consultants, LLC (Buck) to prepare an actuarial valuation of their post-retirement benefits program as of June 30, 2011. This valuation was performed using employee census data, enrollment data, claims, premiums, participant contributions and plan provision information provided by personnel of the Town of Westwood. Buck did not audit these data, although they were reviewed for reasonability. The results of the valuation are dependent on the accuracy of the data.

The purpose of the valuation is to provide reporting and disclosure information for financial statements, governmental agencies and other interested parties. This valuation report contains information required by the Governmental Accounting Standards Board's Statement No. 45 entitled "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."

According to GASB principles, if the benefits are not prefunded, the rate earned by the General Asset Account must be used to select the discount rate used to measure the plan. At the request of the Town, under advisement from its audit firm, the discount rate to measure on this basis was revised from 3.5% to 4.0%. We believe the 4.0% assumption is reasonable for these purposes, though represents a less conservative assumption than the 3.5% which was used in the previous valuation. The 4.0% scenario figures should be reflected in the Town's financial statements based on the Town's current Pay-as-You-Go funding approach. Section II provides a summary of the principal valuation results. Section VII provides a projection of funding and accounting result amounts.

If the Town was to commence funding the Annual Required Contribution instead of just paying benefits when due as it has in the past, the measurement would be based on the expected return that assets set aside for prefunding would be assumed to earn, which in turn depends upon the asset allocation of those funds.

The valuation provides a second scenario of values, illustrating the potential reduction in financial disclosure values resulting from prefunding. The alternative scenario is calculated using an 8.0% discount rate, which implicitly assumes a relatively high proportion of equity investments. The calculation in this scenario can be used to analyze the current funded position of the Town's post-retirement benefits program, and determine the level of contributions necessary to assure sound funding. If the plan were to be prefunded, the plan itself would be required to produce financial statements including information required by the Governmental Accounting Standards Board's Statement No. 43, entitled "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"

The economic and demographic assumptions used for financial accounting purposes were chosen by the plan sponsor with our advice. We believe these assumptions are reasonable for financial accounting purposes. The demographic assumptions used represent a reasonable estimate of future demographic experience of the plan participants. Given the assumptions selected, the costs and actuarial exhibits presented in this report have been prepared in accordance with the requirements of GASB 45. While the actuary believes that the assumptions are reasonable for financial reporting purposes, it should be understood that there is a range of assumptions that could be deemed reasonable that would yield different results. Moreover, while the actuary considers the assumption set to be reasonable based on prior plan experience, it should be understood that future plan experience may differ considerably from what has been assumed.

These results reflect the recent change to the health insurance options that the Town offers to retirees who remain in area. As communicated to participants on April 25, 2011, effective July 1, 2011, all active and non-Medicare retirees who live in the area are required to enroll in a Rate Saver Plan of their choice if they wish to continue Town sponsored medical benefits. Retirees who live out of state were allowed to continue to elect non-Rate Saver Plans. We assumed future retirees would choose to remain in area or move out of state in the same proportion as current retirees.

Due to recent updates within Actuarial Standards of Practice No. 35 (ASOP 35) of the Actuarial Standards Board (ASB), we have revised our mortality assumptions. The tables used reflect an assumption about mortality improvement after the valuation date. Our mortality assumptions are the RP-2000 Mortality Tables for males and females with static projection to 2018 using Scale AA for post-retirement mortality and the RP-2000 Mortality Tables for males and females with static projection to 2026 using Scale AA for pre-retirement mortality. Additionally, the assumed ultimate healthcare cost inflation was revised downward to 4.5% from 5.0%.

For the first time, we reflected the Medicare Part B premium reimbursement, offered for current and future retirees in Medicare plans, in the liabilities. Finally, due to recent healthcare reform, we included the estimated impact of the Excise Tax on high cost health plans (aka, the "Cadillac tax") for the first time. All of these changes, as well as updated per capita costs and census information, and the revision of the discount rate from 3.5% to 4.0%, resulted in a net increase to the Unfunded Actuarial Accrued Liability by approximately $2.9 million as compared to the expected 6/30/2011 Unfunded Actuarial Accrued Liability based on the previous valuation. In addition to these changes, we have assumed that overall payroll would grow at 4.0% instead of 4.5% as was used in the previous valuation. This has no impact on the Unfunded Actuarial Accrued Liability, but does impact the Annual Required Contribution.

Our valuation was prepared in accordance with generally accepted actuarial principles and practices, and, to the best of our knowledge, fairly reflects the values of the benefits under the Plan as of June 30, 2011. The valuation was prepared under my supervision. I am a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries and have met the Qualifications Standard of the American Academy of Actuaries to render the actuarial opinions contained herein.

Thank you for this opportunity to be of service. I am available to answer questions about this report.

Respectfully Submitted,

BUCK CONSULTANTS, LLC

| | |
|---|---|
| ____________________________ | January 5, 2012 |
| Reza Vahid, FSA, MAAA | Date |
| Director, Health & Productivity | |

## SECTION II - REQUIRED INFORMATION

| | | Pay-as-You-Go 4.0% | | Hypothetical Full Prefunding 8% | | Difference |
|---|---|---|---|---|---|---|
| a) Actuarial valuation date | | June 30, 2011 | | June 30, 2011 | | Difference |
| b) Actuarial Value of Assets | $ | 0 | $ | 0 | $ | 0 |
| c) Actuarial Accrued Liability | | | | | | |
| Active participants | $ | 31,483,007 | $ | 14,712,081 | $ | 16,770,926 |
| Retired participants | | 27,571,284 | | 18,666,718 | | 8,904,566 |
| Total AAL | $ | 59,054,291 | $ | 33,378,799 | $ | 25,675,492 |
| d) Unfunded Actuarial Liability "UAL" [ c - b ] | $ | 59,054,291 | $ | 33,378,799 | $ | 25,675,492 |
| e) Funded ratio [ b / c ] | | 0.0% | | 0.0% | | 0.0% |
| f) Annual covered payroll | $ | 37,620,046 | $ | 37,620,046 | | |
| g) UAL as percentage of covered payroll | | 157.0% | | 88.7% | | |
| h) Normal Cost for fiscal year beginning 7/1/2012 | $ | 2,923,257 | $ | 1,222,767 | $ | 1,700,490 |
| i) Amortization of UAL for fiscal year beginning 7/1/2012* | | 1,968,476 | | 1,824,242 | | 144,234 |
| j) Annual Required Contribution "ARC" for fiscal year beginning 7/1/2012 [ h + i ] | $ | 4,891,733 | $ | 3,047,009 | $ | 1,844,724 |
| k) Estimated pay-as-you-go costs | $ | 1,751,826 | $ | 1,751,826 | $ | 0 |

* 30-year amortization, increasing 4.0% per year

## SECTION III - MEDICAL PREMIUMS

**Monthly Premiums effective July 1, 2011**

Health benefits are available to employees and retirees through a number of plans. The Town obtains health insurance coverage through the West Suburban Health Group, which purchases a variety of fully insured plans, with the rates provided to each participating municipality based in part on the municipality’s demographic characteristics. The following are monthly rates per subscriber for plans in which current Town employees and/or retirees are enrolled:

| **Non-Medicare Plans:** | **Town** | **Member** | **Total** |
|---|---|---|---|
| Harvard Pilgrim Rate Saver | | | |
| Individual | $375.04 | $210.96 | $586.00 |
| Family | $978.56 | $550.44 | $1,529.00 |
| Blue Options Rate Saver | | | |
| Individual | $385.92 | $217.08 | $603.00 |
| Family | $1,036.80 | $583.20 | $1,620.00 |
| Tufts Navigator Rate Saver | | | |
| Individual | $396.80 | $223.20 | $620.00 |
| Family | $1,038.72 | $584.28 | $1,623.00 |
| Fallon Select Rate Saver Plan | | | |
| Individual | $333.44 | $187.56 | $521.00 |
| Family | $898.56 | $505.44 | $1,404.00 |
| Fallon Direct Rate Saver Plan | | | |
| Individual | $310.40 | $174.60 | $485.00 |
| Family | $835.20 | $469.80 | $1,305.00 |
| Harvard Pilgrim PPO | | | |
| Individual | $710.00 | $710.00 | $1,420.00 |
| Family | $1,577.00 | $1,577.00 | $3,154.00 |
| Tufts POS | | | |
| Individual | $710.00 | $710.00 | $1,420.00 |
| Family | $1,577.00 | $1,577.00 | $3,154.00 |

## SECTION III - MEDICAL PREMIUMS

**Medicare Plans:**

| | | | |
|---|---|---|---|
| BCBS Medex Enhanced | $216.00 | $216.00 | $432.00 |
| Harvard Pilgrim Medicare Enhanced | $203.00 | $203.00 | $406.00 |
| Tufts Medicare Prime Supplement | $164.00 | $164.00 | $328.00 |
| Managed Blue for Seniors | $214.05 | $214.06 | $428.11 |
| Tufts Medicare Compliment | $195.00 | $195.00 | $390.00 |
| Tufts Medicare Preferred HMO | $121.00 | $121.00 | $242.00 |
| Fallon Senior Plan | $133.50 | $133.50 | $267.00 |

Retirees contribute 36% of the total cost for Non-Medicare Rate Saver plans and 50% of the cost for Medicare plans and Non-Medicare PPO/POS plans. In addition, the Town offers a Medicare Part B refund for retirees currently enrolled in Medicare plans. The refund is equal to 50% of their Medicare Part B premium.

## SECTION IV - MEMBERSHIP DATA AND BREAKDOWN OF RESULTS

| Number of Employees | Town | School | Total |
|---|---|---|---|
| Actives | 180 | 449 | 629 |
| Retirees and Beneficiaries | 109 | 261 | 370 |
| Total | 289 | 710 | 999 |
| **Accrued Liability @ 4.0%** | | | |
| Active | $12,631,684 | $18,851,323 | $31,483,007 |
| Retirees and Beneficiaries | 8,943,150 | 18,628,134 | 27,571,284 |
| Total | $21,574,834 | $37,479,457 | $59,054,291 |
| **Annual Required Contribution @ 4.0%** | | | |
| Normal Cost | $1,015,352 | $1,907,905 | $2,923,257 |
| Amortization of UAL | 719,161 | 1,249,315 | 1,968,476 |
| Total | $1,734,513 | $3,157,220 | $4,891,733 |
| Expected Pay-as-you-go Costs | $568,252 | $1,183,574 | $1,751,826 |
| **Accrued Liability @ 8%** | | | |
| Active | $6,053,794 | $8,658,287 | $14,712,081 |
| Retirees and Beneficiaries | 5,941,116 | 12,725,602 | 18,666,718 |
| Total | $11,994,910 | $21,383,889 | $33,378,799 |
| **Annual Required Contribution @ 8%** | | | |
| Normal Cost | $429,468 | $793,299 | $1,222,767 |
| Amortization of UAL | 655,554 | 1,168,688 | 1,824,242 |
| Total | $1,085,022 | $1,961,987 | $3,047,009 |
| Expected Pay-as-you-go Costs | $568,252 | $1,183,574 | $1,751,826 |
| Difference | $516,770 | $778,413 | $1,295,183 |

## SECTION V - REQUIRED SUPPLEMENTARY INFORMATION

### Schedule of Funding Progress on a Pay-as-You-Go Basis - 4.0%

| Actuarial Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (b) - (a) Unfunded AAL (UAL) | (a) / (b) Funded Ratio | (c) Payroll | (d) Unfunded AAL as % of Payroll |
|---|---|---|---|---|---|---|
| June 30, 2009* | 0 | 49,334,499 | 49,334,499 | 0.00% | 39,100,816 | 126.2% |
| June 30, 2011 | 0 | 59,054,291 | 59,054,291 | 0.00% | 37,620,046 | 157.0% |

* A discount rate of 3.5% was used for the June 30, 2009 measurement.

## SECTION VI - NET OPEB OBLIGATION

GASB Statement No. 45 requires the development of Annual OPEB Cost and Net OPEB Obligation (NOO). This development is shown in the following table. This assumes that the ARC for the fiscal year ending June 30, 2011 is based on the results of the June 30, 2009 valuation.

### Development of OPEB Cost and Net OPEB Obligation (NOO)

| Year Ending June 30 | Annual Required Contribution | Interest on NOO | Amortization of NOO | Annual OPEB Cost (1) + (2) - (3) | Actual Contribution | Change in NOO (4) - (5) | NOO Balance |
|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 2009 | 5,973,531 | 0 | 0 | 5,973,531 | 1,302,000 | 4,671,531 | 4,671,531 |
| 2010 | 4,260,901 | 163,504 | 134,984 | 4,289,421 | 1,078,212 | 3,211,209 | 7,882,740 |
| 2011 | 4,502,956 | 275,896 | 227,773 | 4,551,079 | | | |
| 2012 | 4,891,733 | | | | | | |

## SECTION VII - SCHEDULE OF EMPLOYER CONTRIBUTIONS

The Governmental Accounting Standards Board's Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" outlines various requirements of a funding schedule that will amortize the unfunded actuarial liability and cover normal costs. Amortization of the unfunded actuarial liability is to be based on a schedule that extends no longer than 30 years. The contribution towards the amortization of the unfunded actuarial liability may be made in level payments or in payments increasing at the same rate as salary increases. There is no requirement to actually fund the Annual Required Contribution, however.

In the amortization schedules shown on the following pages, the amortization of the unfunded accrued liability is increasing at 4.0% for 30 years. The normal cost is expected to increase at the same rate as the assumed ultimate healthcare trend rate. Projected benefit payments/employer contributions reflect only the benefit for those individuals now employed or retired, not any future entrants.

Paragraph 12 of GASB 45 stipulates that valuations must be performed at least biennially. The following projections are intended only to illustrate long-term implications of Prefunding versus Pay-as-You-Go.

## SECTION VII - SCHEDULE OF GASB 45 ARC AMOUNTS AND EXPECTED EMPLOYER PAY-AS-YOU-GO CONTRIBUTIONS

### Pay-as-You-Go Basis - 4.0%

| Fiscal Year Ending In | Normal Cost | Amortization of UAL | ARC* | Pay-as-You-Go |
|---|---|---|---|---|
| 2011* | 2,872,140 | 1,630,816 | 4,502,956 | 1,156,674 |
| 2012 | 2,923,257 | 1,968,476 | 4,891,733 | 1,751,826 |
| 2013 | 3,054,804 | 2,089,004 | 5,143,808 | 1,884,014 |
| 2014 | 3,192,270 | 2,214,420 | 5,406,690 | 2,086,129 |
| 2015 | 3,335,922 | 2,342,748 | 5,678,670 | 2,251,101 |
| 2016 | 3,486,038 | 2,475,580 | 5,961,618 | 2,419,155 |
| 2017 | 3,642,910 | 2,613,217 | 6,256,127 | 2,626,502 |
| 2018 | 3,806,841 | 2,754,750 | 6,561,591 | 2,824,027 |
| 2019 | 3,978,149 | 2,900,912 | 6,879,061 | 3,009,632 |
| 2020 | 4,157,166 | 3,052,549 | 7,209,715 | 3,208,763 |
| 2021 | 4,344,238 | 3,209,690 | 7,553,928 | 3,366,853 |
| 2022 | 4,539,729 | 3,374,226 | 7,913,955 | 3,490,472 |
| 2023 | 4,744,017 | 3,547,919 | 8,291,936 | 3,679,622 |
| 2024 | 4,957,498 | 3,729,212 | 8,686,710 | 3,816,281 |
| 2025 | 5,180,585 | 3,920,512 | 9,101,097 | 3,930,032 |
| 2026 | 5,413,711 | 4,123,331 | 9,537,042 | 4,133,737 |
| 2027 | 5,657,328 | 4,335,419 | 9,992,747 | 4,307,710 |
| 2028 | 5,911,908 | 4,558,523 | 10,470,431 | 4,525,792 |
| 2029 | 6,177,944 | 4,791,963 | 10,969,907 | 4,654,204 |
| 2030 | 6,455,951 | 5,039,597 | 11,495,548 | 4,773,638 |
| 2031 | 6,746,469 | 5,302,715 | 12,049,184 | 4,945,482 |
| 2032 | 7,050,060 | 5,580,587 | 12,630,647 | 5,055,170 |
| 2033 | 7,367,313 | 5,876,370 | 13,243,683 | 5,204,704 |
| 2034 | 7,698,842 | 6,189,899 | 13,888,741 | 5,381,311 |
| 2035 | 8,045,290 | 6,521,459 | 14,566,749 | 5,599,748 |
| 2036 | 8,407,328 | 6,870,866 | 15,278,194 | 5,775,759 |
| 2037 | 8,785,658 | 7,240,816 | 16,026,474 | 5,898,508 |
| 2038 | 9,181,013 | 7,634,508 | 16,815,521 | 6,041,537 |
| 2039 | 9,594,159 | 8,052,790 | 17,646,949 | 6,247,663 |
| 2040 | 10,025,896 | 8,495,120 | 18,521,016 | 6,329,927 |
| 2041 | 10,477,061 | 8,967,313 | 19,444,374 | 6,444,830 |
| 2042 | 10,948,529 | 9,470,128 | 20,418,657 | 6,642,562 |
| 2043 | 11,441,213 | 10,002,679 | 21,443,892 | 6,725,907 |

* Based on the results of the June 30, 2009 valuation.

## SECTION VII - SCHEDULE OF EMPLOYER CONTRIBUTIONS

### Full Prefunding Basis - 8%

| Fiscal Year Ending In | Normal Cost | Amortization of UAL | ARC | Pay-as-You-Go |
|---|---|---|---|---|
| 2012 | 1,222,767 | 1,824,242 | 3,047,009 | 1,751,826 |
| 2013 | 1,277,791 | 1,897,212 | 3,175,003 | 1,884,014 |
| 2014 | 1,335,292 | 1,973,100 | 3,308,392 | 2,086,129 |
| 2015 | 1,395,380 | 2,052,024 | 3,447,404 | 2,251,101 |
| 2016 | 1,458,172 | 2,134,105 | 3,592,277 | 2,419,155 |
| 2017 | 1,523,790 | 2,219,469 | 3,743,259 | 2,626,502 |
| 2018 | 1,592,361 | 2,308,248 | 3,900,609 | 2,824,027 |
| 2019 | 1,664,017 | 2,400,578 | 4,064,595 | 3,009,632 |
| 2020 | 1,738,898 | 2,496,601 | 4,235,499 | 3,208,763 |
| 2021 | 1,817,148 | 2,596,465 | 4,413,613 | 3,366,853 |
| 2022 | 1,898,920 | 2,700,324 | 4,599,244 | 3,490,472 |
| 2023 | 1,984,371 | 2,808,337 | 4,792,708 | 3,679,622 |
| 2024 | 2,073,668 | 2,920,670 | 4,994,338 | 3,816,281 |
| 2025 | 2,166,983 | 3,037,497 | 5,204,480 | 3,930,032 |
| 2026 | 2,264,497 | 3,158,997 | 5,423,494 | 4,133,737 |
| 2027 | 2,366,399 | 3,285,357 | 5,651,756 | 4,307,710 |
| 2028 | 2,472,887 | 3,416,771 | 5,889,658 | 4,525,792 |
| 2029 | 2,584,167 | 3,553,442 | 6,137,609 | 4,654,204 |
| 2030 | 2,700,455 | 3,695,580 | 6,396,035 | 4,773,638 |
| 2031 | 2,821,975 | 3,843,403 | 6,665,378 | 4,945,482 |
| 2032 | 2,948,964 | 3,997,139 | 6,946,103 | 5,055,170 |
| 2033 | 3,081,667 | 4,157,025 | 7,238,692 | 5,204,704 |
| 2034 | 3,220,342 | 4,323,306 | 7,543,648 | 5,381,311 |
| 2035 | 3,365,257 | 4,496,238 | 7,861,495 | 5,599,748 |
| 2036 | 3,516,694 | 4,676,088 | 8,192,782 | 5,775,759 |
| 2037 | 3,674,945 | 4,863,132 | 8,538,077 | 5,898,508 |
| 2038 | 3,840,318 | 5,057,657 | 8,897,975 | 6,041,537 |
| 2039 | 4,013,132 | 5,259,963 | 9,273,095 | 6,247,663 |
| 2040 | 4,193,723 | 5,470,362 | 9,664,085 | 6,329,927 |
| 2041 | 4,382,441 | 5,689,176 | 10,071,617 | 6,444,830 |
| 2042 | 4,579,651 | - | 4,579,651 | 6,642,562 |
| 2043 | 4,785,735 | - | 4,785,735 | 6,725,907 |

## SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

### TOWN OF WESTWOOD, ALL GROUPS

***Interest:*** Pay-as-You-Go: 4.00% per year (in the prior valuation this had been 3.50%)
Full Prefunding: 8.00% per year, net of investment expenses

***Actuarial Cost Method*:** Projected Unit Credit. Benefits are attributed ratably to service from date of hire until decrement.

***Healthcare Cost Trend Rate:***

| FY Ending | Trend Rate |
|---|---|
| 2012 | 7.5% |
| 2013 | 7.0% |
| 2014 | 6.5% |
| 2015 | 6.0% |
| 2016 | 5.5% |
| 2017 | 5.0% |
| 2018 & after | 4.5%* |

* In the prior valuation, ultimate trend was assumed to be 5.0%.

***Medicare Part B Increase Rate:*** Increases in the Medicare Part B monthly premium are assumed to be 4% per year. Additionally, for future retirees, it was assumed that the average Medicare Part B reimbursement rate would be higher than the standard Part B premium due to the income related portion of the premium due for high income retirees, by 5% in the valuation year, increasing by 1% additional each year for the next 9 years."

Actual reported levels of income related Part B premiums were reflected for current retirees.

## SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

### TOWN OF WESTWOOD, ALL GROUPS

***Amortization Period*:** 30-year level percent of pay assuming 4.0% aggregate annual payroll growth, open basis for Pay-as-You-Go. The amortization period is 30 years for all future valuations under the Pay-as-You-Go scenario. Under the Full Prefunding scenario, a 30-year closed basis was used for the amortization, starting with Fiscal Year ending June 30, 2012. The amortization period for the Full Prefunding scenario is a specific number of years that is counted from one date, declining to zero with the passage of time.

***Participation*:** 85% of future retirees are assumed to participate in the retiree medical plan.

***Marital Status:*** 80% of male employees and 60% of female employees are assumed to have a covered spouse at retirement. Wives are assumed to be three years younger than their husbands.

***Pre-Medicare Retirees:*** Current retirees who are under age 65 are assumed to remain in the pre-Medicare medical plan until age 65. The retirees are valued based on per capitas developed using weighted average premium amounts.

Current active employees who are assumed to retire prior to age 65 are valued using per capitas developed using weighted-average premium amounts. This weighted-average premium is based on the medical plan coverage of current retirees under age 65.

***Post-Medicare Retirees:*** Current retirees over age 65 remain covered until death. It is assumed that all future retirees will become Medicare eligible when they reach age 65. Amounts to be received in the future for the Medicare Part D Retiree Drug Subsidy are not reflected in the valuation. All Medicare eligible retirees (current or future) are valued using per capitas developed based on weighted average premiums of those current retirees now on Medicare.

***Termination Benefit:*** 50% of current actives over age 50 with at least 10 years of service are expected to elect medical coverage starting at age 55.

## SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

### TOWN OF WESTWOOD, ALL GROUPS

***Medical Plan Costs:***

It is assumed that future retirees participate in the same manner as current retirees. The Town participates in the West Suburban Health Group, with the rates provided to each participating municipality based in part on the municipality's demographic characteristics. Per capita costs were developed from the monthly costs.

The estimated average gross premium all non-Medicare retirees and beneficiaries before adjusting for aging for 2011-12 is \$8,475. This amount is \$13,094 when normalized to age 65. The average Medicare eligible retirees' per capita claims cost is \$4,698 for the same period. The amount is \$3,595 when normalized to age 65.

It is assumed that future retirees participate in the same manner as current retirees (i.e. they elect a blend of options equal to the current retiree population's election mix). Employee cost sharing is based on current rates as described above.

***Age-Based Morbidity:***

Per capita costs are adjusted to reflect expected cost increases related to age. The increase in the net incurred claims was assumed to be:

| Age | Annual Increase |
|---|---|
| 49 and below | 2.6% |
| 50-54 | 3.2% |
| 55-59 | 3.4% |
| 60-64 | 3.7% |
| 65-69 | 3.2% |
| 70-74 | 2.4% |
| 75-79 | 1.8% |
| 80 and over | 0.0% |

***Valuation Cycle:***

This valuation is prepared using data as of June 30, 2011 in order to calculate the Annual Required Contribution amounts for use for the fiscal years ending June 30, 2012 and June 30, 2013.

## SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

## TOWN OF WESTWOOD, GROUPS 1 AND 2 (NON-TEACHERS)

SEPARATIONS FROM ACTIVE SERVICE: Representative values of the assumed annual rates of withdrawal and vesting, disability, death and service retirement are as follows:

| | | Service Retirement | |
|---|---|---|---|
| **Age** | **Disability** | **Male** | **Female** |
| 25 | 0.0002 | | |
| 30 | 0.0003 | | |
| 35 | 0.0006 | | |
| 40 | 0.0010 | | |
| 45 | 0.0015 | | |
| 50 | 0.0019 | 0.010 | 0.015 |
| 55 | 0.0024 | 0.020 | 0.055 |
| 60 | 0.0028 | 0.120 | 0.050 |
| 62 | 0.0030 | 0.300 | 0.150 |
| 65 | 0.0030 | 0.400 | 0.150 |
| 69 | 0.0030 | 0.300 | 0.200 |

| Years of Service | Rates of Withdrawal |
|---|---|
| 0 | 0.150 |
| 1 | 0.120 |
| 2 | 0.100 |
| 3 | 0.090 |
| 4 | 0.080 |
| 5 | 0.076 |
| 10 | 0.054 |
| 15 | 0.033 |
| 20 | 0.020 |
| 25 | 0.010 |
| 30+ | 0.000 |

Mortality: RP-2000 Mortality Tables for males and females with static projection to 2018 using Scale AA for post-retirement mortality and the RP-2000 Mortality Tables for males and females with static projection to 2026 using Scale AA for pre-retirement mortality. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 2 years is used.

In the prior valuation, the mortality assumption for non-disabilities was the RP-2000 Combined Healthy Table.

**SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS**

**TOWN OF WESTWOOD, GROUPS 1 AND 2 (TEACHERS)**

SEPARATIONS FROM ACTIVE SERVICE: Representative values of the assumed annual rates of withdrawal and vesting, disability, death and service retirement are as follows:

| Age | Disability |
|---|---|
| 25 | 0.0002 |
| 30 | 0.0003 |
| 35 | 0.0006 |
| 40 | 0.0010 |
| 45 | 0.0015 |
| 50 | 0.0019 |
| 55 | 0.0024 |
| 60 | 0.0028 |
| 62 | 0.0030 |
| 65 | 0.0030 |
| 69 | 0.0030 |

| Years of Service | Rates of Withdrawal |
|---|---|
| 0 | 0.150 |
| 1 | 0.120 |
| 2 | 0.100 |
| 3 | 0.090 |
| 4 | 0.080 |
| 5 | 0.076 |
| 10 | 0.054 |
| 15 | 0.033 |
| 20 | 0.020 |
| 25 | 0.010 |
| 30+ | 0.000 |

| | Male Service Retirement | | Female Service Retirement | |
|---|---|---|---|---|
| **Age** | **<20** | **20+** | **<20** | **20+** |
| 50 | 0.00 | 0.01 | 0.00 | 0.01 |
| 55 | 0.02 | 0.03 | 0.02 | 0.04 |
| 60 | 0.12 | 0.20 | 0.12 | 0.16 |
| 61 | 0.15 | 0.30 | 0.15 | 0.20 |
| 62 | 0.18 | 0.35 | 0.18 | 0.25 |
| 63 | 0.15 | 0.35 | 0.15 | 0.25 |
| 64 | 0.25 | 0.30 | 0.25 | 0.30 |
| 65 | 0.40 | 0.50 | 0.40 | 0.40 |
| 66 | 0.40 | 0.30 | 0.40 | 0.30 |
| 67 | 0.40 | 0.30 | 0.40 | 0.25 |
| 68 | 0.40 | 0.30 | 0.40 | 0.35 |
| 69 | 0.40 | 0.40 | 0.40 | 0.35 |
| 70 | 1.00 | 1.00 | 1.00 | 1.00 |

Teachers electing the increased benefit under Chapter 114 of the Acts of 2000 were assumed to have higher rates of retirement from ages 54 to 62 if their service was greater than 30 years. These rates are the same for males and females. The rate at age 54 is 0.035. The rate increases to 0.06 at age 55, 0.18 at age 56 and 0.30 at age 57. The rate for ages 58, 59 and 62 is 0.40. The rate for ages 60 and 61 is 0.35.

Mortality: The RP-2000 Mortality Tables for males and females with static projection to 2018 using Scale AA for postretirement mortality, and projected to 2026 for pre-retirement mortality. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 2 years is used.

In the prior valuation, the mortality assumption for non-disabilities was the RP-2000 Combined Healthy Table.

## SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

## TOWN OF WESTWOOD, GROUP 4

SEPARATIONS FROM ACTIVE SERVICE: Representative values of the assumed annual rates of disability, service retirement, and withdrawal are as follows:

| Age | Disability | Service Retirements |
|---|---|---|
| 25 | 0.0020 | |
| 30 | 0.0030 | |
| 35 | 0.0030 | |
| 40 | 0.0030 | |
| 45 | 0.0100 | 0.010 |
| 50 | 0.0125 | 0.020 |
| 55 | 0.0120 | 0.150 |
| 60 | 0.0085 | 0.200 |
| 62 | 0.0075 | 0.250 |
| 65 | 0.0000 | 1.000 |
| 69 | | |

| Years of Service | Rates of Withdrawal |
|---|---|
| 0 | 0.015 |
| 1 | 0.015 |
| 2 | 0.015 |
| 3 | 0.015 |
| 4 | 0.015 |
| 5 | 0.015 |
| 6 | 0.015 |
| 7 | 0.015 |
| 8 | 0.015 |
| 9 | 0.015 |
| 10 | 0.015 |
| 11+ | 0.000 |

Mortality: The RP-2000 Mortality Tables for males and females with static projection to 2018 using Scale AA for post-retirement mortality and the RP-2000 Mortality Tables for males and females with static projection to 2026 using Scale AA for pre-retirement mortality. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 2 years is used.

In the prior valuation, the mortality assumption for non-disabilities was the RP-2000 Combined Healthy Table.

## SCHEDULE B - SUMMARY OF PROGRAM PROVISIONS

| | |
|---|---|
| ***Retirement Medical Insurance:*** | Retired employees pay a variable portion of their post-retirement medical costs, which varies by plan. In addition, retirees in Medicare plans are entitled to a Medicare Part B reimbursement, which is currently 50% of their required Part B premium including any income related excess premium they have to pay. (This amount is $49.95 for 2012, before adjustment for income related excess premium charges). |
| ***Spousal Coverage:*** | Current and future retirees may elect to include their spouses as part of their post-retirement benefits. There is lifetime spousal coverage for medical insurance even after the death of the retiree. The spouse of an employee who dies prior to termination from service but who has 10 or more years of service is eligible to receive medical insurance for life or until remarriage. No remarriage was assumed for this valuation. |
| ***Section 18 Coverage:*** | The Town has elected to adopt Section 18 under Chapter 32B of the General Laws of Massachusetts, which requires that an employee or retiree must participate in the Medicare program as the primary payer once one reaches age 65 and is Medicare eligible. |
| ***Retirement Eligibility:*** | Age 55 with 10 years of service, or 20 years of service. |
| ***Ordinary Disability Eligibility:*** | 10 years of service and under age 55. |
| ***Termination Eligibility:*** | 10 years of service. |

## SCHEDULE C - CONSIDERATIONS OF HEALTH CARE REFORM

**Early Retiree Reinsurance Program ("ERRP") - Effective June 1, 2010:** The town has not received any reimbursement under this program.

**Removal of Lifetime Maximum:** Any cost in relations to removal of any historic annual or lifetime maximums is assumed to already have been reflected in the premiums that we were provided.

**Medicare Advantage Plans - Effective January 1, 2011:** The law provides for phased in reductions to the amounts that would be provided to Medicare Advantage plans starting in 2011. We have considered the impact that these reductions might have on plan costs in setting the trend assumption used.

**Expansion of Child Coverage to Age 26:** Since few retirees cover children on retiree health plans, this provision will likely have a relatively small effect on the gross benefit cost. The cost covering children through age 26 is assumed to already have been reflected in the premiums that we were provided.

**Medicare Part D Subsidy - Shrinking Medicare Prescription Drug "Donut Hole" - Starting January 1, 2011:** RDS payments are not reflected as on ongoing offsetting item in GASB 45 valuations, and so no direct impact is reflected. We do not think that the improved Medicare Part D benefits will cause any change in participation levels given the level of the plan's subsidy for benefits for Medicare eligible participants.

**Excise Tax on High-Cost Employer Health Plans (aka Cadillac Tax) - Effective January 1, 2018:** There is considerable uncertainty about how the tax would be applied, and considerable latitude in grouping of participants for tax purposes. We have estimated the impact using the weighted average of the stated premiums and a 3.5% assumed CPI and applied the estimated amounts as a load on calculated liabilities.

**Other:** We have not identified any other specific provision of health care reform that would be expected to have a significant impact on the measured obligation. As additional guidance on the legislation is issued, we will continue to monitor any potential impacts.

# SCHEDULE D - GLOSSARY OF TERMS

**Actuarial Accrued Liability**
That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of OPEB benefits and expenses which is not provided for by future Normal Costs and therefore is the value of benefits already earned.

**Actuarial assumptions**
Assumptions as to the occurrence of future events affecting OPEB costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and Government provided OPEB benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; characteristics of future entrants for Open Group Actuarial Cost Methods; and other relevant items.

**Actuarial cost method**
A procedure for determining the Actuarial Present Value of OPEB benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.

**Actuarial experience gain or loss**
A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates, as determined in accordance with a particular Actuarial Cost Method.

**Amortization (of unfunded actuarial accrued liability)**
That portion of the OPEB plan contribution which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability or the Unfunded Frozen Actuarial Accrued Liability.

**Annual OPEB cost**
An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.

**Annual required contributions of the employer (ARC)**
The employer's periodic expense to a defined benefit OPEB plan, calculated in accordance with the parameters. It is the value of the cash contributions for a funded plan and the value of the expense entry in the profit and loss section of the financial statements.

**Closed amortization period (closed basis)**
A specific number of years that is counted from one date and, therefore, declines to zero with the passage of time. For example, if the amortization period initially is thirty years on a closed basis, twenty-nine years remain after the first year, twenty-eight years after the second year, and so forth. In contrast, an open amortization period (open basis) is one that begins again or is recalculated at each actuarial valuation date. Within a maximum number of years specified by law or policy (for example, thirty years), the period may increase, decrease, or remain stable.

**Covered payroll**
Annual compensation paid to active employees covered by an OPEB plan. If employees also are covered by a pension plan, the covered payroll should include all elements included in compensation on which contributions to the pension plan are based. For example, if pension contributions are calculated on base pay including overtime, covered payroll includes overtime compensation.

**Defined benefit OPEB plan**
An OPEB plan having terms that specify the benefits to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based on one or more factors such as age, years of service, and compensation), or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums).

**Funded ratio**
The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

# SCHEDULE D - GLOSSARY OF TERMS

**Funding policy**
The program for the amounts and timing of contributions to be made by plan members, employer(s), and other contributing entities (for example, state government contributions to a local government plan) to provide the benefits specified by an OPEB plan.

**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, plan design, and technological developments.

**Investment return assumption (discount rate)**
The rate used to adjust a series of future payments to reflect the time value of money.

**Level dollar amortization method**
The amount to be amortized is divided into equal dollar amounts to be paid over a given number of years; part of each payment is interest and part is principal (similar to a mortgage payment on a building). Because payroll can be expected to increase as a result of inflation, level dollar payments generally represent a decreasing percentage of payroll; in dollars adjusted for inflation, the payments can be expected to decrease over time.

**Level percentage of projected payroll amortization method**
Amortization payments are calculated so that they are a constant percentage of the projected payroll of active plan members over a given number of years. The dollar amount of the payments generally will increase over time as payroll increases due to inflation; in dollars adjusted for inflation, the payments can be expected to remain level.

**Net OPEB Obligation**
The cumulative difference since the effective date of this Statement between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt. It will be included as a balance sheet entry on the financial statements.

**Normal cost**
That portion of the Actuarial Present Value of OPEB benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. It is the value of benefits to be accrued in the valuation year by active employees.

**OPEB-related debt**
All long-term liabilities of an employer to an OPEB plan, the payment of which is not included in the annual required contributions of a sole or agent employer (ARC) or the actuarially determined required contributions of a cost-sharing employer. Payments generally are made in accordance with installment contracts that usually include interest. Examples include contractually deferred contributions and amounts assessed to an employer upon joining a multiple-employer plan.

**Other postemployment benefits**
Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, excluding benefits defined as termination offers and benefits.

**Pay-as-You-Go**
A method of financing an OPEB plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

**Required supplementary information (RSI)**
Schedules, statistical data, and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity.