



 Segal Consulting

Town of Belmont

REVIEW OF JUNE 30, 2017 OTHER POST-EMPLOYMENT BENEFITS (OPEB) ACTUARIAL VALUATION

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July 1, 2017 OPEB Valuation

- Will provide the Town with the disclosure information needed for the June 30, 2017 financial statements under GASB Statement No. 74.
- Will be adjusted to June 30, 2018 to provide the Town with the disclosure information needed for the June 30, 2018 financial statements under GASB Statements No. 74 and 75.
- Will provide the Town with information to measure progress toward funding retiree medical benefits.
- Note, funding is not required by the accounting standards or by federal or state statutes.
- However, the rating agencies are monitoring actions taken with respect to retiree health benefits.

Participant Data and Related Assumptions

➤ Retirees receiving medical benefits

- 510 as of July 1, 2016
- 696 as of July 1, 2017
- 2017 figures include spouses

➤ Active employees

- 814 active employees as of July 1, 2016 (90% or 733 are assumed to elect retiree coverage upon retirement)
- 589 active employees covered for medical benefits as of July 1, 2017 (125% or 736 are assumed to elect retiree coverage upon retirement)

Estimating retiree benefits

- Develop per capita claims costs and apply trend assumptions
- In prior valuation, per capita claims costs were based on working rates.
- In current valuation, per capita claims costs for self-funded plans were based on claims experience for the prior two year. Per capita claims costs for fully insured plans were based on working rates.
- Sample per capita claims costs:

- Prior valuation (males):

	Medicare-Eligible
Ages 50-54	\$8,996
Ages 60-64	\$15,003
Ages 65-59	\$3,853
Ages 80-84	\$6,268

- Current valuation (males)

	Medical	Rx	Total
Age 50	\$9,553	\$2,134	\$11,687
Age 60	\$13,473	\$3,009	\$16,482
Age 65	\$1,788	\$2,077	\$3,865
Age 80	\$2,405	\$2,794	\$5,199

Estimating retiree benefits *cont.*

➤ Trend assumptions in prior valuation:

- 8.0% decreasing by 0.5% each year to an ultimate level of 4.5% per year

➤ Trend assumptions in current valuation:

- Non-Medicare (Medical) – 7.0% decreasing by 0.5% each year to an ultimate level of 4.5% per year
- Medicare (Medical) – 4.5%
- Prescription drug – 9.0% decreasing by 0.5% each year to an ultimate level of 4.5% per year
- Medicare Advantage – 7.5% decreasing by 0.5% each year to an ultimate level of 4.5% per year

Plan change

- **Effective January 1, 2018, prescription drug coverage for retirees enrolled in Medicare Enhance plan is provided through Aetna as a stand-alone PDP on a fully insured basis.**

Development of the Discount Rate

- **In the prior valuation, the discount rate was determined in accordance with GASB Statement No. 45**
 - GASB 45 requires that the discount rate be based on the rate of return on assets dedicated to paying retiree medical benefits.
 - For accounting purposes, a rate of 4.25% was used to reflect the partial pre-funding of future payments.
 - The discount rate used to calculate liabilities on a full-funding basis was 7.5%

- **In the current valuation, the discount rate was determined in accordance with GASB Statement No. 74**
 - GASB 74 requires that a blended discount be used that is based on:
 - the assets in the OPEB Trust (\$3.1 million),
 - the Town’s funding policy (a contribution of \$250,000 per year through fiscal 2029 and then redirect the \$12,000,000 paid toward the Retirement System’s unfunded liability beginning in fiscal 2020 when the Retirement System is projected to be fully funded),
 - the long-term expected rate of return on OPEB Trust assets (6.5% based on a 60/40 allocation), and
 - a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rate of AA/Aa or higher (measured by the Bond Buyer’s 20 bond index – 3.58% as of June 30, 2017).
 - The blending is based on the sufficiency of projected assets to make projected benefit payments.
 - A blended discount rate of 5.90% as of June 30, 2017 was determined.

Impact of Changes

- **The unfunded liability reported for accounting purposes decreased from \$186.3 million as of June 30, 2016 to \$96.7 million as of June 30, 2017.**
- **The unfunded liability was expected to increase by \$11.5 million due to normal operations (benefits earned plus interest, less benefits paid and contributions to the OPEB Trust).**
- **There was an experience gain of \$6.1 million.**
- **The plan change reduced the unfunded liability by \$17.0 million.**
- **Changes in assumptions reduce the unfunded liability by \$78.0 million. The key changes were as follows:**
 - **Changes in per capita costs - \$14.0 million**
 - **Changes in trend assumptions - \$15.7 million**
 - **Change in discount rate - \$24.1 million**
 - **Other changes - \$24.2 million**

Valuation Results

- The Town's portion of the Net OPEB liability is \$92.8 million.
- The Town's Total OPEB liability is 2.99% funded.
- The Light Department's portion of the Net OPEB liability is \$3.9 million.
- The Light Department's Total OPEB liability is 5.83% funded.
- The unfunded liability determined for funding purposes, discounted at the expected return on assets of 6.5%, was \$90 million.
- Based on the Town's funding policy, the unfunded liability is projected to be eliminated by fiscal 2041 (24 years), if experience emerges as expected, and there are no assumption or plan changes.