

CITY OF NEWTON

ACTUARIAL VALUATION OF
OTHER THAN PENSION POST- EMPLOYMENT BENEFITS
(OPEB)
FOR FISCAL YEAR ENDING JUNE 30, 2014

AUGUST 11, 2014



FINANCIAL RISK ANALYSTS, LLC
Actuaries • Insurance Consultants



August 11, 2014

Sent Via Email


Mr. David C. Wilkinson
Comptroller
City of Newton
Commonwealth Avenue and Walnut St.
Newton Centre, MA 02159

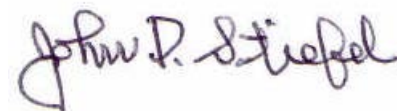
Dear David:

Enclosed please find our report regarding indicated other than pension post-employment benefit (OPEB) liabilities for the City of Newton's fiscal year ending June 30, 2014. The valuation is in accordance with Governmental Accounting Standards Board Statement 45 (GASB-45).

It has been a pleasure being of service to you again on this project. If after reviewing this report you have any questions please do not hesitate to call.

Sincerely,


Robert W. Van Epps, FCAS, MAAA
Managing Principal


John D. Stiefel, FSA, MAAA
Associated Consultant

CITY OF NEWTON

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CITY OF NEWTON

INTRODUCTION

Financial Risk Analysts, LLC has been retained by the City of Newton (the City) to provide an actuarial valuation of the City's retiree medical and life insurance post-retirement benefits program for the fiscal year ending June 30, 2014. The City initially complied with GASB-45 for the fiscal year July 1, 2007 to June 30, 2008, so this is the seventh year of GASB-45 compliance.

Medical and life insurance are the two most common types of other (than pension) post-retirement employee benefits (OPEB) provided by an employer to retirees and their beneficiaries.

The City presently provides life and health insurance benefits for active and retired employees and their covered dependents. The City has reported to us 2,375 active employees, 319 pre-Medicare retirees, 2,054 Medicare retirees and 182 over age 65 non-Medicare retirees who have elected health insurance.

Harvard Pilgrim, Tufts EPO, Tufts POS and Tufts Medicare Complement Plan are self insured. Both the Legacy and Advantage plans are self insured. Tufts Medicare Preferred and Medicare HMO Blue are fully insured.

Life insurance benefits provided by the City are fully insured. For health insurance, actives have a choice among the Harvard, Tufts-EPO and Tufts-POS Preferred Advantage plans while retirees not on Medicare can access these 3 "Legacy" plans as well as the "Advantage" plans. Most retirees on Medicare are in the Tufts Medicare Complement Plan. For life insurance, the only option is a flat \$5,000 benefit which does not reduce at retirement. As required by Massachusetts law, retirees not on Medicare have the same benefit options as active employees.

A detailed description of the City's census, benefit, and premium information is presented on Exhibits 7, 8, and 9.

CITY OF NEWTON

CONDITIONS AND LIMITATIONS

DATA

Within this report we used data and other information provided to us by the City. This data consisted of the following:

- Census Information - the demographics of the active, pre-Medicare retiree and Medicare retiree population covered for medical and life insurance benefits as of the date of the most recent pension valuation. For active employees, date of hire was also included.
- Benefit Information - a description of the different health and life insurance plans available to participants.
- Funding Information – a description of how the life and health insurance plans are funded including the contributions required from employees and retirees.
- Premium Rates – the premium rates for the various plans and the percentage of each premium rate that the City pays.
- Life Insurance In-Force Information – a summary of the life insurance schedules for actives and retirees and the participant contributions required.
- Requirements for Retirement – the age/service requirements for retirement with an unreduced pension benefit and the amount of benefit reduction for early retirement.
- Probabilities of Retirement – the probability that a general or uniformed employee eligible to retire will actually retire.
- Retirement Election Rates - The percentage of active participants who opt to continue their life and health insurance benefits (and pay the associated premiums) at retirement.

Although the data supplied were reviewed for purposes of reasonability, we have not independently audited or verified this information and we assume it to be accurate and complete. The results of our analysis will be contingent upon the reliability of the information supplied to us and such reliability is the responsibility of the City. Should the City become aware of any significant discrepancies in the data reported to us, we should be notified of such discrepancies and this report will be amended, if necessary.

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UNCERTAINTY

Actuarial projections, by their nature, are estimates of future contingent events, which cannot be known with certainty. The City's ultimate liability for medical and life insurance benefits will be subject to events that have yet to occur such as the future employee attrition rate, retirements, and particularly interest rates and medical cost inflation.

While we believe the results presented in this report are reasonable and reflect the use of accepted actuarial principles and standards of practice, it is possible that the actual future OPEB liability of the City will differ, perhaps materially, from what we have projected herein. Nothing in this report should be construed as a warranty or guarantee as to the adequacy of the liability estimates contained herein.

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DISTRIBUTION AND USE

This report is provided solely for the use of the City of Newton in evaluating its OPEB liability for the fiscal year July 1, 2013 through June 30, 2014. A copy of this report may also be provided to the City's auditor with the proviso that the report is copied in its entirety and that each party receiving a copy of this report agrees to not distribute the report to any other third party.

We request that the City inform us of distribution of this report to parties other than those referenced above.

CITY OF NEWTON

REQUIRED DISCLOSURES

Required Information for the Fiscal Year July 1, 2013 through June 30, 2014

City of Newton			
GASB-45 Required Disclosures			
	Unfunded Discount Rate		
	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>
	2.00%	2.00%	2.04%
A. Expected Post Retirement Benefit Obligation	\$966,938,192	\$905,697,206	\$863,092,820
1. Impact of a 1% Change in Interest Assumption			20%
B. Funded Status			
1. Actuarial Accrued Liability (AAL)			
Active Employees	\$235,579,731	\$233,792,635	\$233,385,414
Retirees	\$365,719,948	\$368,516,636	\$321,991,803
Total	\$601,299,679	\$602,309,271	\$555,377,217
2. Actuarial Value of Assets	\$312,973	\$528,537	\$1,119,811
3. Unfunded Actuarial Accrued Liability (1) - (2)	\$600,986,706	\$601,780,734	\$554,257,406
4. Funded Ratio (2)/(3)	0.05%	0.09%	0.20%
5. Annual Covered Payroll	\$ 176,524,732	\$ 182,513,121	\$191,423,680
6. Ratio of Unfunded AAL to Covered Payroll (3)/(5)	340%	330%	290%
C. Annual Required Contribution (ARC)			
1. Normal Cost (Service Cost)	\$20,512,617	\$18,833,849	\$18,908,754
2. Amortization of Unfunded Accrued Liability	\$29,298,168	\$30,245,632	\$28,848,638
3. Annual Required Contribution (ARC) (1) + (2)	\$49,810,785	\$49,079,482	\$47,757,392
D. Annual OPEB Cost			
1. ARC	\$49,810,785	\$49,069,482	\$47,757,392
2. Interest on Net OPEB Obligation	\$2,361,795	\$2,957,502	\$3,624,258
3. Adjustment to ARC	\$5,753,892	\$5,930,009	\$9,247,041
4. Annual OPEB Cost (1) + (2) - (3)	\$46,418,688	\$46,106,974	\$42,134,609
E. Net OPEB Obligation Estimates			
1. Net OPEB Obligation - beginning of year	\$118,089,758	\$147,875,079	\$177,659,722
2. Annual OPEB Cost	\$46,418,688	\$46,106,974	\$42,134,609
3. Expected Contributions during the year	\$16,633,367	\$163,222,331	\$13,484,254
4. Net OPEB Obligation - end of year (1)+(2)-(3)	\$147,875,079	\$177,659,722	\$206,310,077

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As displayed on Exhibit 1, the table above presents a summary of the results of our analysis. We present the 2012 and 2013 results along side of the 2014 results as required by GASB-45.

The 2.04% discount rate was selected by the City for purposes of discounting a partially-funded liability. It is a blend of 2.00% for an unfunded plan and 7.65% for a fully-funded plan. We believe this is a reasonable discount rate.

The following is an explanation of the terms used in the table above:

Expected Post-Retirement Benefit Obligation (EPBO) – This is the present value of the future post-retirement life and health insurance benefits for all currently retired employees and active employees eligible for those benefits. For active employees, the EPBO includes the full present value of benefits even though some employees have not yet fully earned or vested in those benefits. The government needs to be aware of this liability but does not need to disclose or recognize it on any of its financial statements.

Actuarial Accrued Liability (AAL) – This is also known as the Accumulated Post-Retirement Benefit Obligation (APBO). This is that portion of the EPBO that has been accrued to date. For existing retirees and active employees who have fully earned their benefit, the AAL equals the EPBO. The AAL is the current liability that must be recognized on the government's balance sheet if the government chooses immediate recognition. Alternatively, the government can choose to amortize the current APBO.

Actuarial Value of Plan Assets – The amount of assets held in trust to fund the plan (if the plan is being funded).

Unfunded Actuarial Accrued Liability – The excess of the AAL over the plan assets.

Normal Cost – Also known as the Service Cost, this is the portion of the EPBO for active employees attributable to employee service during the year.

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Amortization of Unfunded Accrued Liability – This is the annual amortization of the AAL if the Government chooses to amortize the AAL. Under GASB-45, the entity can choose to amortize the current AAL or not. GASB-45 permits amortization over a period of from 10 to 30 years. If the government chooses to amortize the AAL, the amortization cost should be booked as a current year expense. The City elected to amortize the AAL over 30 years, and we use the level dollar amortization method for this calculation. GASB allows amortization on an open, closed or level % of payroll basis. We selected the closed basis; i.e. the amortization period begins at 30 years and declines 1 year every year.

Annual Required Contribution (ARC) – This is the total amount that should be booked as a current year expense. The ARC is the sum of the Normal Cost (Service Cost) and Amortization of Actuarial Accrued Liability. GASB-45 recommends, but does not require, that the ARC actually be contributed (funded) each year.

Net OPEB Obligation – Beginning of Year – This is last year's End of Year Net OPEB Obligation.

Interest of Net OPEB Obligation – This is interest, at the assumed interest rate, on the Beginning of Year Net OPEB Obligation.

Adjustment to ARC – This is the Beginning of Year Net OPEB Obligation divided by the amortization factor.

Annual OPEB Cost – This is the ARC + Interest on Net OPEB Obligation - Adjustment to the ARC

Expected Contributions During the Year – This is the amount of OPEB payments the Government made for retiree OPEB during the just-completed fiscal year.

Net OPEB Obligation – End of Year Estimate – This is the Beginning of Year Net OPEB Obligation + Annual OPEB Cost - the Expected Contributions during the Year.

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ANALYSIS

Assumptions

1. **Interest discount rate** – 2.04% per year, net of expenses, for an partially-funded plan. GASB-45 requires that the selection of an interest discount rate be based on the expected long term rate of return on the (General Fund) assets expected to be available to pay the benefits when due. The 2.04% rate is a blend of \$1,191,811 of funded assets invested at the full funding rate of 7.65% (earned by the Massachusetts Health Care Trust) and the remaining \$176,539,911 of the 7/1/13 Net OPEB Obligation invested at 2.00% (the unfunded discount rate). We note that a level 1% increase in assumed interest rate will decrease the City’s liability by about 20%. We also note that, because the City is funding some its OPEB obligations, its EPBO is \$7,974,459 lower and its ARC is \$415,066 lower than they would have been absent any funding.
2. **Trend** – Medical Costs are assumed to increase each year according to the following schedule:

<u>Year</u>	<u>Medical Trend</u>
2013	0.74%
2014	2.04%
2015	3.34%
2016	4.65%
2017	5.96%
2018	5.93%
2019	5.91%
2020	5.89%
2025	5.78%
2030	5.81%
2040	5.19%
2050	5.00%
2060	4.83%
2070	4.35%
2080+	4.35%

The above trend rates were developed using the baseline projection of the SOA Long-Run Medical Cost Trend Model v12.2 (November 2012). The short-term (first 4 years) trend rates were based on the fact that the City’s most recent rate increase averaged 0.74% for retirees. The long-term (after 4 years) trend rates were based on the following assumptions:

Rate of Inflation 2.8%
Rate of Growth in Real Income / GDP per capita 1.5%

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Income Multiplier for Health Spending 1.30
 Extra Trend due to Technology and other factors 1.1%
 Health Share of GDP Resistance Point 23.0%
 Year for Limiting Cost Growth to GDP Growth 2060

The Society of Actuaries' (SOA's) Long-Run Medical Cost Trend Model and its baseline projection are based on an econometric analysis of historical US medical expenditures and the judgments of experts in the field. The long-run baseline projection and input variables have been developed under the guidance of an SOA Project Oversight Group. The above schedule represents a reasonable medical trend projection for the current plan provisions and demographics of the City's Retiree Welfare Benefits Plan, and no changes to these baseline assumptions are necessary.

3. **Amortization Period** – Thirty years (initial), 24 years (remaining). 30 years is the maximum period permitted by GASB-45. GASB-45 permits amortization payments to increase at a rate not to exceed projected salary growth. We assumed level amortization payments, which we think are more realistic for budgeting purposes.
4. **Retirement Eligibility** – As prescribed by the terms of the City's Retirement System.
5. **Marital Status** – Active participants are assumed to keep their current marital status upon retirement.
6. **Turnover** – Representative values of assumed annual turnover rates for general and uniformed employees are as follows.

Age Group	General Employees	Uniformed Employees
<20	15.00%	1.50%
20-24	13.13%	1.50%
25-29	10.12%	1.50%
30-34	8.33%	1.46%
35-39	6.78%	1.22%
40-44	5.96%	0.28%
45-49	5.13%	0.03%
50-54	3.23%	0.03%
55-59	2.45%	0.00%
60-64	2.07%	0.00%
65-69	1.94%	0.00%
70-74	1.22%	0.00%
75+	0.00%	0.00%

7. **Mortality** – Mortality assumptions are used to project the expected number of employees who will be receiving benefits each year in the future. We used the RP-2000 mortality table (combined healthy lives) with projected mortality.

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8. **Disability** – Disability assumptions are used to project the number of people who will retire early due to disability. The possibility of disability was accounted for by assuming average retirement ages that were 1 year younger than were observed by the City (see (10) below)
9. **Requirements for Retirement**-The City has informed us it requires attainment of age 65 for general employees to retire with an unreduced pension benefit. For uniformed employees this age is 55. Early retirement is available with twenty years of service with a reduced benefit. Retirement is no longer mandatory at age 70 for general employees and age 65 for uniformed employees.
10. **Age at Retirement**-Representative assumed average retirement ages are shown below. These values are consistent with the requirements for retirement stated above, the input provided by the City about average retirement ages (about 65 for General and 60 for Uniform) and the adjustment for disability retirements (see (8) and (9) above).

<u>Age</u>	<u>General Employees</u>	<u>Uniformed Employees</u>
45	63	58
50	63	59
55	64	61
60	66	64
62	67	65
65	69	65
69	72	69
70	72	70

11. **Retirement Election Rates**-The City provided us data for each group showing total retirees and how many retirees have elected to continue post-retirement benefits and pay the associated premiums. That data showed that retirement election rates have been as follows.

	<u>All Employees</u>
Health Insurance	100%
Life Insurance	37%

12. **Plan Changes**- the City informed us that two significant plan changes were implemented in 2011. The first change is that all active employees must elect one of the (less expensive) “Advantage” plans. This change reduces what the City’s cost will be when these employees retire. The second change is that all active employees must contribute 25% (for unions constituting 88% of actives) or 30% (for the other 12%) instead of the previous 20%. This further reduces what the City’s cost will be when these employees retire. The financial impact of both these changes (which increases over time) was reflected in our last 2 valuations and in this valuation.

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13. **Expenses-** We did not make an explicit assumption for expenses because our assumed interest discount rates are net of expenses.

Methodology

We used the Projected Unit Credit actuarial cost method to perform our estimate of the OPEB liability. The following is a summary of the steps employed in our analysis.

- 1. Determine current annual subsidy for life and health insurance for the pre-Medicare retirees, Medicare retirees and retirees over age 65 not on Medicare.** We used the most recently available census data, current premiums, participant contribution requirements and age-sex adjustment factors to make these calculations.
- 2. Calculate the EPBO.** This is the present value of future subsidies for life and health insurance for the actives, pre-Medicare retirees, retirees over 65 not on Medicare and Medicare retirees. Separate calculations were required for active general and active uniformed employees.
- 3. Calculate the AAL from the EPBO and the active employee age and service information from the census.**
- 4. Calculate the other GASB-45 required disclosures.**

CITY OF NEWTON

SCHEDULE OF EMPLOYER CONTRIBUTIONS

The schedule below is based on the normal cost and amortization of the unfunded actuarial accrued liability calculated for the fiscal year beginning June 30, 2014, future normal costs increasing at 5.0% per year and future amortization payments increasing at the assumed future healthcare trend rates.

Schedule of Employer Contributions 2.04% Discount Rate					
Fiscal Year Ending in	Normal Cost	Amortization Payment	Total City ARC		
2014	\$18,908,754	\$28,848,638	\$47,757,392		
2015	\$19,854,192	\$29,061,512	\$48,915,704		
2016	\$20,846,901	\$29,655,311	\$50,502,213		
2017	\$21,889,247	\$30,648,349	\$52,537,596		
2018	\$22,983,709	\$32,074,708	\$55,058,417		
2019	\$24,132,894	\$33,986,137	\$58,119,031		
2020	\$25,339,539	\$36,003,083	\$61,342,622		
2021	\$26,606,516	\$38,131,108	\$64,737,624		
2022	\$27,936,842	\$40,376,053	\$68,312,895		
2023	\$29,333,684	\$42,744,061	\$72,077,745		
2024	\$30,800,368	\$45,241,586	\$76,041,954		
2025	\$32,340,387	\$47,875,411	\$80,215,797		
2026	\$33,957,406	\$50,652,663	\$84,610,069		
2027	\$35,655,276	\$53,580,833	\$89,236,109		
2028	\$37,438,040	\$56,667,789	\$94,105,829		
2029	\$39,309,942	\$59,992,637	\$99,302,579		
2030	\$41,275,439	\$63,501,140	\$104,776,579		
2031	\$43,339,211	\$67,203,057	\$110,542,268		
2032	\$45,506,172	\$71,108,653	\$116,614,825		
2033	\$47,781,480	\$75,197,369	\$122,978,849		
2034	\$50,170,554	\$79,474,803	\$129,645,357		
2035	\$52,679,082	\$83,946,531	\$136,625,612		
2036	\$55,313,036	\$88,618,087	\$143,931,123		
2037	\$58,078,688	\$93,494,953	\$151,573,641		
2038	\$60,982,622	\$98,582,538	\$159,565,160		
2039	\$64,031,753	\$103,886,162	\$167,917,915		
2040	\$67,233,341	\$109,411,040	\$176,644,380		
2041	\$70,595,008	\$115,162,258	\$185,757,266		
2042	\$74,124,758	\$121,144,759	\$195,269,517		
2043	\$77,830,996	\$127,414,862	\$205,245,858		
2044	\$81,722,546	\$133,985,107	\$215,707,653		

CITY OF NEWTON
GASB 45 DETERMINATION

REQUIRED DISCLOSURES-SUMMARY
 2.04% Interest

	<u>Active</u>	<u>Retired</u>	<u>Total</u>
A. Expected Post-Retirement Benefit Obligation	\$541,101,018	\$321,991,803	\$863,092,820
B. Actuarial Accrued Liability (AAL)	\$233,385,414	\$321,991,803	\$555,377,217
C. Plan Assets			\$1,119,811
D. Unfunded Actuarial Accrued Liability			\$554,257,406
E. Service Cost (Normal Cost)	\$18,908,754	\$0	\$18,908,754
F. Amortization of unfunded accrued liability			\$28,848,638
G. Annual Required Contribution (ARC)			\$47,757,392
H. Unamortized Portion of AAL			\$526,528,579
I. Expected Benefit (Premium) Payments	n/a	\$13,484,254	\$13,484,254

A-B. Exhibit 2.1

C. Since plan is not funded, current assets = 0.

D. B - C

E-H. Exhibit 2.1

I. These are the City's share of the annual retiree life and health insurance premiums.

**CITY OF NEWTON
GASB 45 DETERMINATION**

REQUIRED DISCLOSURES-DETAIL
2.04% Interest

	Active Employees			Retirees			Total
	<u>General</u>	<u>Uniformed</u>	<u>Total</u>	<u>Pre-Medicare</u>	<u>Age 65+ Not on MC</u>	<u>Medicare</u>	<u>Total</u>
	(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)	(7)=(3)+(4)+(5)+(6)
A. Number of Members Generating a Liability (Medical)	2,056	319	2,375	292	182	2,054	4,903
B. Expected Post Retirement Benefit Obligation							
Medical/Rx/Vision	\$363,010,258	\$175,947,457	\$538,957,715	\$96,355,993	\$89,899,534	\$134,460,865	\$859,674,108
Dental	\$0	\$0	\$0	\$0	Incl in PMR	Incl in PMR	\$0
Life	\$1,443,603	\$699,700	\$2,143,302	\$383,184	\$357,508	\$534,718	\$3,418,713
Total	\$364,453,861	\$176,647,157	\$541,101,018	\$96,739,177	\$90,257,042	\$134,995,583	\$863,092,820
C. Actuarial Accrued Liability	\$160,698,158	\$72,687,257	\$233,385,414	\$96,739,177	\$90,257,042	\$134,995,583	\$555,377,217
D. Service Cost (Normal Cost)	\$13,328,513	\$5,580,241.68	\$18,908,754	\$0	\$0	\$0	\$18,908,754
E. Plan Assets as of 7/1/14							\$1,119,811
F. Unfunded Actuarial Accrued Liability							\$554,257,406
G. Amortization Factor							19.21
H. Amortization of Actuarial Accrued Liability							\$28,848,638
I. Annual Required Contribution							\$47,757,392
J. Unamortized Portion of Actuarial Accrued Liability							\$526,528,579

- A. Exhibit 9
- B. Exhibit 4. Dental EPBO = \$0 because there is only 1 retiree dental plan and retirees pay the full cost.
Life EPBO = ratio of Life premium to Medical premium x Medical EPBO
- C. For retired lives AAL = EPBO. For active lives AAL = EPBO x C from Exhibit 3
- D. For retired lives Service Cost = 0. For active lives Service Cost = EPBO X D from Exhibit 3
- E. From the City of Newton
- F. C - E
- G. Present value at 2.04% of a 24-year annuity due
- H. F/G
- J. C - H

**CITY OF NEWTON
GASB 45 DETERMINATION**

ACTIVE EMPLOYEE ACCRUED BENEFITS
2.04% Interest

	Active Employees	
	<u>General</u> (1)	<u>Uniform</u> (2)
A. Average Projected Service at Retirement = Attribution Period	27.9	31.1
B. Weighted Average Service to Date	12.3	12.8
C. Weighted Average Percent of Retirement Benefits Accrued to Date	44.1%	41.1%
D. Percent of OPEB Accrued in Fiscal Year	3.7%	3.2%

-
- A. Calculated from the census data
 - B. Calculated from the census data
 - C. B/A
 - D. Calculated from the census data

**CITY OF NEWTON
GASB 45 DETERMINATION**

EXPECTED POST-RETIREMENT BENEFIT OBLIGATION - MEDICAL/Rx
2.04% Interest

	Active Employees		Retirees			Total
	(1)	(2)	(3)	(4)	(5)	(6)
	General	Uniformed	Pre-Medicare	Age 65+ Not on MC	Medicare	
A. Number of Contracts	2,056	319	292	182	2,054	4,903
B. Annual Subsidy per Contract	n/a	n/a	\$21,228	\$27,543	\$4,761	
C. PV of Future Subsidies for All Employees	\$366,748,186	\$177,759,193	\$97,348,174	\$90,825,232	\$135,087,690	\$867,768,475
D. Percent Expected to Elect Medical at Retirement	100%	100%	100%	100%	100%	
E. Expenses	0%	0%	0%	0%	0%	0%
F. Adjustment to Account for Survivor Benefits	101%	101%	101%	101%	101%	101%
G. PV of Medicare Part B Late Enrollment Penalties					\$750,000	
H. Interest Adjustment	0.9800	0.9800	0.9800	0.9800	0.9800	
I. Expected Post-Retirement Benefit Obligation	\$363,010,258	\$175,947,457	\$96,355,993	\$89,899,534	\$134,460,865	\$859,674,108
J. EPBO per Contract	\$176,561	\$551,559	\$329,986	\$493,953	\$65,463	\$175,336

- A. Exhibit 9
- B. Exhibit 5
- C. Calculated from B and the age and sex of each contractholder.
- D. Calculation only considered participants who actually elected medical.
- E. Expenses are 0% because the assumed interest rate is net of expenses.
- F. Survivors can continue coverage and pay the same % their deceased spouse paid.
Also, retirees and survivors can resume coverage any time even if they decline it initially.
- G. Assumes an annual cost of \$15,000 per year, as estimated by the City (same as 2013 and down from \$20,000 per year estimated in 2012).
- H. This is interest discount from the "data date" back to 7/1/13, the calculation date. Data was provided on 7/24/14 but presumably is as of 7/1/14.
- I. $C \times D \times (1+E) \times F \times H + G$
- J. I/A

**CITY OF NEWTON
GASB 45 DETERMINATION**

CURRENT ANNUAL SUBSIDY - MEDICAL/Rx

	Current Actives During Pre-Med <u>Retirement</u> (1)	Current Actives During Med <u>Retirement</u> (2)	Current Pre-Med. <u>Retirees</u> (3)	Retirees >65 Not on <u>Medicare</u> (4)	Current Medicare <u>Retirees 65+</u> (5)
A. Average Annual Premium per Contract excluding Med Part B	\$15,008	\$4,794	\$16,260	\$11,879	\$4,794
B. Actual Annual Cost per Contract excluding Med Part B	\$22,719	\$4,794	\$24,614	\$29,936	\$4,794
C. Flat Annual City Contribution Toward the Medicare Part B Premium	n/a	\$925.44	n/a	\$0	\$925.44
D. Blended Annual ASO/Stop Loss Premium paid by the City	\$0	\$0	\$0	\$0	\$0
E. Total Actual Annual City Cost per Contract	\$22,719	\$5,719	\$24,614	\$29,936	\$5,719
F. Annual Member Contributions per Contract	\$3,303	\$1,018	\$3,386	\$2,393	\$959
G. Current Annual Subsidy per Contract	\$19,416	\$4,701	\$21,228	\$27,543	\$4,761

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- A. Exhibit 6
 - B. For PMR, equal to A times an age-sex factor to account for the "implicit subsidy". This factor is 151.38%
For retirees > 65 not on Medicare, equal to an age-sex factor to account for no Medicare. This is 252.00%
 - C. The City reimburses its retirees and their spouses \$925.44 a year for the Medicare Part B premium. This is a flat amount that does not increase when the Medicare Part B premium increases. Previously the City reimbursed 80% of the then-current Medicare Part B premium.
 - D. Since the City's insurance contracts are fully insured, the stop loss costs are included in the premium rates.
 - E. B + C + D
 - F. Exhibit 6
 - G. E - F

**CITY OF NEWTON
GASB 45 DETERMINATION**

MEMBER CONTRIBUTIONS

	<u>Medical/Rx</u>	<u>Life Insurance</u>
<u>Current Pre-Medicare Retirees - < 65</u>		
Average Monthly Premium per Contract	\$ 1,355.02	\$9.45
Average Annual Premium per Contract	\$16,260.22	\$113.40
Percent Paid By Members	20.82%	50.00%
Current Annual Amount Members Pay	\$3,385.75	\$56.70
<u>Current Actives During Pre-Medicare Retirement</u>		
Average Monthly Premium per Contract	\$ 1,250.70	\$9.45
Average Annual Premium per Contract	\$15,008.39	\$113.40
Average % Paid by Members	22.01%	50.00%
Current Annual Amount Members Pay	\$3,303.12	\$56.70
<u>Retirees >65 Not on Medicare</u>		
Average Monthly Premium per Contract	\$ 989.94	\$9.45
Average Annual Premium per Contract	\$11,879.29	\$113.40
Percent Paid By Members	20.15%	50.00%
Current Annual Amount Members Pay	\$2,393.12	\$56.70
<u>Current Medicare Retirees</u>		
Average Monthly Premium per Contract	\$ 399.49	\$9.45
Average Annual Premium per Contract	\$4,793.85	\$113.40
Percent Paid By Members	20.00%	50.00%
Current Annual Amount Members Pay	\$958.77	\$56.70
<u>Current Actives During Medicare Retirement</u>		
Average Monthly Premium per Contract	\$ 399.49	\$113.40
Average Annual Premium per Contract	\$4,793.85	\$1,360.80
Percent Paid By Members	21.24%	50.00%
Current Annual Amount Members Pay	\$1,018.11	\$680.40

Monthly costs calculated from census and premium rates.

Percent paid by members from Exhibit 7

Per the City, current group of post 8/31/11 hires will pay an average of 25.6% during retirement.

Our calculations consider the savings to the City from requiring post 8/31/11 hires to pay more.

**CITY OF NEWTON
GASB 45 DETERMINATION**

FUNDING INFORMATION

<u>Actives</u>	
Medical	Pre-8/31/11 hires pay 20% of blended cost of actives and retirees not on Medicare. Employees hired on or after 8/31/11 currently pay between 25-30% of the cost They will also pay this amount when they retire. Harvard Pilgrim, Tufts EPO, Tufts POS and Tufts MCP are self insured Both the Legacy Plans and Advantage plans are self insured.
Drugs	Included with Medical
Dental	Actives pay <100% of the cost of the coverage.
Life Insurance	Fully insured. Current 100% monthly premium rate is \$9.45 per month for \$5,000 of coverage. Members pay 50% of the total premium - so they pay \$4.72 per month.
<u>Retirees Not on Medicare</u>	
Medical	Retirees hired before 8/31/11 and their spouses pay 20% of blended cost of actives and retirees not on Medicare. Retirees hired on or after 8/31/11 will pay >20% (depending on their bargaining unit). On average, they will pay 25.6%. The exception to this is the Tufts PPO Legacy plan where retirees pay 48% (Single)/41% Family.
Drugs	Same as for Actives
Dental	For the only plan available, retirees have to pay 100% of the cost of the coverage.
Life Insurance	Retirees pay 50% of the premium.
<u>Retirees on Medicare</u>	
Medical	Plans designed for these participants are fully insured. When eligible for Medicare, retiree is transferred to a Medicare Supplement plan. Tufts Medicare Complement plan is self insured. Tufts Medicare Preferred and Medicare HMO Blue are fully insured. Pre-8/31/11 retirees and their spouses pay 20% of the cost. Retirees hired on or after 8/31/11 will pay >20% (depending on their bargaining unit). On average, they will pay 25.6%. The exception to this is the Tufts PPO Legacy plan where retirees pay 48% (Single)/41% Family.
Drugs and Vision	Since plan is fully insured, stop loss coverage is included in the insurance rates. Post - 8/31/11 retirees will pay more.
Drugs	Same as for Actives
Dental	For the only plan available, retirees have to pay 100% of the cost of the coverage.
Life Insurance	Retirees pay 50% of the premium.

Data provided by the City of Newton

**CITY OF NEWTON
GASB 45 DETERMINATION**

BENEFIT INFORMATION

<u>Actives</u>		
Medical		Choice of Harvard Pilgrim, Tufts EPO and Tufts POS Advantage plans. These plans are new effective 12/1/11. Rates depend on choice of coverage The City only offers Individual and Family plans.
Drugs and Vision		Included if Medical Elected (Drug Copays per Medical Plan Elected Apply)
Dental		Several plans are available.
Life Insurance		All life insurance benefits are a flat \$5,000 with no reduction at retirement.
<u>Retirees Not on Medicare</u>		
Medical		Same Choices as for Actives plus Harvard Pilgrim, Tufts EPO and Tufts POS "Legacy" plans are available for those who retired before 8/31/11. Those who retired after 8/31/11 can only chose among the Harvard Pilgrim, Tufts EPO and Tufts POS Advantage plans. Survivors from family contracts can continue coverage until they die. They may also re-enter the plan after initially declining coverage.
Drugs and Vision		Same Choices as for Actives
Dental		Only 1 plan is available. It is not subsidized by the City, so the City has no GASB-45 liability for dental benefits.
Life Insurance		Flat \$5,000
<u>Retirees on Medicare</u>		
Medical		Most participants have elected the Tufts Medicare Complement Plan (Medicare Supplement). A minority have elected Tufts Medicare Preferred. The City reimburses a flat \$925.44 per year toward the cost of the Medicare Part B premium for retirees and their spouses. This flat amount does not increase when the Medicare Part B premium increases. Surviving spouse can continue coverage on the same terms as the deceased retiree, per Massachusetts law. Survivors from family contracts can continue coverage until they die. They may also re-enter the plan after initially declining coverage. The City has adopted Section 18 of MGL Chapter 32B. Effective July 1, 2010, the City is responsible to reimburse 100% of the penalties paid by retirees for enrolling late in Medicare B. The City is still gathering information to determine how much this will cost. Its best current estimate is about \$15,000 per year.
Drugs and Vision		Same Choices as for Actives Drug Plan Not Eliminated When Medicare Part D Took Effect
Dental		Only 1 plan is available. It is not subsidized by the City, so the City has no GASB-45 liability for dental benefits.
Life Insurance		Flat \$5,000

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CENSUS INFORMATION

	<u>General</u> (1)	<u>Uniformed</u> (2)	<u>Elected No Coverage</u> (3)	<u>Total</u> (4)
<u>Actives - Medical</u>				
Number of Contracts	2,056	319	214	2,589
Average Age	45	44		45
Average Service Years	10	16		
<u>Pre-Medicare Retirees - Medical/Under 65</u>				
Number of Contracts	292	Incl in Gen	Incl Above	292
Average Age	59			
<u>Retirees > 65 Not on Medicare</u>				
Number of Contracts	182	Incl in Gen	Incl Above	182
Average Age	74			
<u>Medicare Retirees - Medical</u>				
Number of Contracts	2,054	Incl in Gen	Incl Above	2,054
Average Age	77			
<u>Life Insurance</u>				
Number of Contracts - Actives	934	Incl in Gen	1,441	2,375
Number of Contracts - Retirees	941	Incl in Gen	1,593	2,534
Number Electing Life Insurance - Total	1,875	Incl in Gen	3,034	4,909
Percent of New Retirees Electing Medical				100%
Percent Under-65 Retirees Keeping Medical at Age 65				100%
Percent of New Retirees Electing Life Insurance				37%

Data provided by the City of Newton
The City has noted that the declination rate for retiree medical insurance is negligible.