

**JUNE 30, 2013  
ACTUARIAL VALUATION OF  
THE POST RETIREMENT BENEFITS PLAN  
OF  
THE TOWN OF MIDDLETOWN**

**November 2013**

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## SECTION I - OVERVIEW

The Town of Middletown (“The town”) has engaged Buck Consultants, LLC (Buck) to prepare an actuarial valuation of their post-retirement benefits program as of June 30, 2013. This valuation was performed using employee census data, enrollment data, premiums, participant contributions and plan provision information provided by personnel of the Town of Middletown and by personnel at the Employees’ Retirement System of Rhode Island (ERSRI). 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 purposes of the valuation are to analyze the current funded position of the Town’s post-retirement benefits program, determine the level of contributions necessary to assure sound funding and 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 Statements Nos. 43 and 45, respectively entitled “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” and “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. However, if the benefits are pre-funded, the valuation should reflect the estimated long-term investment yield of the plan assets. The Town officially set up an OPEB trust fund in June 2011 through its trustee, Citizens Bank. The Town’s trust fund is segregated and dedicated to providing OPEB benefits. Under the investment policy that was adopted for the Trust, the assets are to be invested in an asset mix that is ultimately expected to generate a 7.5% return on assets. Since the Town currently funds the Annual Required Contribution, the measurement is based on the 7.5% discount rate.

Section II provides a summary of the principal valuation results. Section VII provides a projection of funding amounts.

### Assumption Changes from the Prior valuation

This valuation reflects a number of different actuarial assumptions from the June 30, 2011 valuation. In particular:

- We modified our health care trend assumption to reflect lower rate increases for plans coordinating with Medicare (as opposed to those that do not). We also lowered the ultimate trend level from 5.00% to 4.50% to reflect lower long-term inflation expectations.

<u>Year Beginning</u>	<b>Prior</b>	<b>Revised Assumption</b>	
	<u>Assumption</u> <u>Pre/Post-</u> <u>Medicare</u>	<u>Pre-Medicare</u>	<u>Post-Medicare</u>
<b>2013</b>	7.00%	8.50%	6.50%
<b>2014</b>	6.50%	8.00%	6.25%
<b>2015</b>	6.00%	7.50%	6.00%
<b>2016</b>	5.50%	7.00%	5.75%
<b>2017</b>	5.00%	6.50%	5.50%
<b>2018</b>	5.00%	6.00%	5.25%
<b>2019</b>	5.00%	5.50%	5.00%
<b>2020</b>	5.00%	5.00%	4.75%
<b>2021 and later</b>	5.00%	4.50%	4.50%

- We modified our participation assumptions (i.e. the proportion of future retirees that are assumed to elect coverage) based emerging experience over the last two years as follows:
  - Decreased the participation assumption for Town employees from 90% to 80%
  - Increased the participation assumption for Teachers from 80% to 90%; the remaining 10% that do not elect coverage are assumed to elect the buyback option
  - Increased the participation assumption for Clerical and Custodial employees from 80% to 90%

We did not alter the participation assumption for police and fire employees, which remains at 100% and 90%, respectively;

- We revised our retirement, termination and disability rates to be consistent with those used in the Employees' Retirement System of Rhode Island Valuation, for those employees participating in the state pension plan. These revised rates reflect the changes to the plan benefits resulting from the Rhode Island Retirement Security Act (RIRSA). We did not modify the rates for those employees who continue to participate in the town pension plan.

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. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: retiree group benefits program experience differing from that anticipated by the assumptions; changes in assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and changes in retiree group benefits program provisions or applicable law. Retiree group benefits models necessarily rely on the use of approximations and estimates, and are sensitive to changes in these approximations and estimates. Small variations in these approximations and estimates may lead to significant changes in actuarial measurements. In particular, given that the majority of individuals receive more costly benefits prior to Medicare eligibility, variations in assumed and actual retirement ages can have a dramatic impact on results.

Our valuation was prepared in accordance with generally accepted actuarial principles and practices, and, to the best of our knowledge, fairly reflects the value of the benefits under

the Plan as of June 30, 2013. The report was prepared under the supervision of Reza Vahid, a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries, who takes responsibility for the overall appropriateness of the analysis, assumptions and results. Mr. Vahid has met the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Based on the assumptions used in the preparation of this report, and on the data furnished us, we certify that the costs and actuarial exhibits presented in this report have been prepared in accordance with Generally Accepted Accounting Practices and the requirements of GASB 43 and 45. I am available to answer questions about this report.

Respectfully Submitted,

BUCK CONSULTANTS, LLC



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Reza Vahid, FSA, MAAA, EA  
Director, Health & Productivity

November 22, 2013  
Date

## SECTION II - REQUIRED INFORMATION

	Full Prefunding 7.5%	Full Prefunding 7.5%
a) Actuarial valuation date	June 30, 2011	June 30, 2013
b) Actuarial Value of Assets	\$ 3,338,311	\$ 4,018,150
c) Actuarial Accrued Liability		
Active participants	\$ 6,569,254	\$ 8,955,230
Retired participants	<u>22,893,865</u>	<u>24,223,110</u>
Total AAL	\$ <u>29,463,119</u>	\$ <u>33,178,340</u>
d) Unfunded Actuarial Liability "UAL" [ c - b ]	\$ 26,124,808	\$ 29,160,190
e) Funded ratio [ b / c ]	11.3%	12.1%
f) Annual covered payroll	\$ 30,052,962	\$ 30,047,295
g) UAL as percentage of covered payroll	86.9%	97.0%
h) Normal Cost for fiscal year beginning on valuation date (with interest)	\$ 450,054	\$ 501,116
i) Amortization of UAL for fiscal year beginning on valuation date	\$ 1,473,900	\$ 1,732,019
j) Interest to end of fiscal year	\$ 110,543	\$ 129,901
k) Annual Required Contribution "ARC" for fiscal year beginning on valuation date [ h + i + j ]	\$ 2,034,497	\$ 2,363,036
l) Expected benefit payments for fiscal year beginning on valuation date	\$ 1,957,714	\$ 2,035,917

## SECTION III - MEDICAL PREMIUMS

### Monthly Premiums effective July 1, 2013

Health and dental benefits are available to employees and retirees through a number of plans. We understand that the Town obtains health insurance coverage through the Rhode Island Interlocal Risk Management Trust, who administers the health risk sharing pool of dozens of municipalities and schools, with the rates provided to each participating entity based in part on the entity's demographic characteristics. The next pages indicate gross monthly rates per subscriber for popular plans in which current Town employees and/or retirees are enrolled. Note that the same basic plan name can refer to multiple plans/rates, each of which may represent different plan features that are offered to various cohorts of retirees.

Retired and disabled employees contribute a variable percentage of stated premiums, depending on the division they were employed under. In addition, the Town offers a Medicare Part B premium refund for members in the Fire division who retired between 1997 and 2007.

<u>Department</u>	<u>Non-Medicare Plan</u>	<u>Covered Population</u>	<u>Individual</u>	<u>Family</u>
<b>Town Hall</b>	Healthmate C2C	Effective for all Town Hall retirees who retired prior to 7/1/2008	\$620.48	\$1,625.79
	Healthmate C2C	Effective if retiring after 7/1/2008 (Hired prior to 7/1/08)	\$599.83	\$1,572.20
	Blue Chip	Effective if retiring after 7/1/2008 (Hired after 7/1/08)	\$568.61	\$1,490.20
<b>Police</b>	Classic	Effective for Police retirees retiring prior to 1990's	\$683.35	\$1,747.12
	Healthmate C2C	Effective for Police retirees retiring prior to 7/1/2004	\$620.48	\$1,625.79
	Healthmate C2C	Effective for Police retirees retiring after 7/1/2004 but prior to 7/1/07	\$647.15	\$1,696.81
	Healthmate C2C	Effective for Police retirees retiring after 7/1/2007 (hired before 7/1/08)	\$626.09	\$1,641.44
	Blue Chip	Effective for Police retirees retiring after 7/1/2008 (hired after 7/1/08)	\$593.79	\$1,556.60
<b>Fire</b>	Classic	Effective for Fire retirees retiring before 7/1/1997 for life*	\$683.35	\$1,788.94
	Healthmate C2C	Optional for Fire retirees retiring before 7/1/1997 for life*	\$620.48	\$1,625.79
	Classic	Effective for Fire retirees retiring 7/1/1997 - 7/1/07	\$683.35	\$1,747.12
	Healthmate C2C	Optional for Fire retirees retiring 7/1/1997 - 7/1/07	\$620.48	\$1,625.79
	Healthmate C2C	Effective for Fire retirees retiring 7/1/07 - 2/1/11 (Hired before 7/1/07)	\$607.89	\$1,592.66
	Blue Chip	Effective for Fire retirees retiring 7/1/07 - 2/1/11 (Hired after 7/1/07)	\$575.35	\$1,507.18
	Blue Chip	Effective for Fire retirees retiring after 2-2011	\$554.17	\$1,451.54
Healthmate C2C	Optional for Fire retirees retiring after 2-2011	\$519.52	\$1,360.58	
<b>Public Works</b>	Classic	Effective for PW retirees retiring prior to 7/1/2001	\$852.51	\$2,226.16
	Healthmate C2C	Effective for PW retirees retiring after 7/1/2001	\$626.49	\$1,643.75
	Blue Chip	Effective for PW retirees retiring after 10/1/2008 (Hired after 10/1/08)	\$568.61	\$1,490.20
<b>Teachers</b>	Classic		\$663.00	\$1,738.14
	Healthmate C2C		\$596.80	\$1,565.23
<b>Administrators</b>	Classic		\$670.45	\$1,757.70
	Healthmate C2C		\$617.23	\$1,618.89
<b>Custodial</b>	Healthmate C2C		\$617.25	\$1,617.27
<b>Clerical</b>	Healthmate C2C		\$617.25	\$1,617.27

\* Firefighters who retired prior to 7/1/97 are not required to enroll in Medicare, and may continue in the non-Medicare plan for the remainder of their lifetime.

<u>Department</u>	<u>Medicare Plan</u>	<u>Covered Population</u>	<u>Individual</u>
<b>Police</b>	Plan 65	Effective for <u>all</u> Police retirees at age 65	\$155.23
<b>Fire</b>	Plan 65 w/ Major Med Plan 65/skilled nursing BlueChip for Medicare	Effective for Fire retirees retiring 7/1/97-7/1/07	\$468.66
		Effective for Fire retirees retiring after 7/1/07	No Data
		Optional for Fire retirees retiring after 7/1/07	\$265.00
<b>Public Works</b>	Plan 65	Effective for PW retirees retiring after 7/1/01; coverage to age 70 only	\$155.23
<b>Teachers</b>	Plan 65	Effective for <u>all</u> Teacher retirees at age 65 (who are still entitled to coverage)	\$455.07

## SECTION IV - MEMBERSHIP DATA AND BREAKDOWN OF RESULTS

<b>Number of Employees</b>	<b>Fire</b>	<b>Police</b>	<b>Public Works</b>	<b>Town Hall</b>	<b>Clerical &amp; Custodial</b>	<b>Teachers &amp; Admin</b>	<b>Total</b>
Actives	30	38	17	33	47	207	372
Retirees and Spouses	81	89	7	3	12	79	271
<b>Total</b>	<b>111</b>	<b>127</b>	<b>24</b>	<b>36</b>	<b>59</b>	<b>286</b>	<b>643</b>
<b>6/30/2013 Accrued Liability @ 7.5%</b>							
Active	1,090,591	1,863,707	111,725	287,566	830,057	4,771,584	8,955,230
Retirees and Spouses	14,372,042	7,929,134	281,416	28,796	264,023	1,347,699	24,223,110
<b>Total</b>	<b>15,462,633</b>	<b>9,792,841</b>	<b>393,141</b>	<b>316,362</b>	<b>1,094,080</b>	<b>6,119,283</b>	<b>33,178,340</b>
<b>FY 2014 Annual Required Contribution @ 7.5%</b>							
Normal Cost	103,713	164,242	7,639	6,878	20,072	198,572	501,116
Amortization of UAL	807,200	511,219	20,523	16,515	57,115	319,447	1,732,019
Interest	60,539	38,341	1,539	1,239	4,284	23,959	129,901
<b>Total</b>	<b>971,452</b>	<b>713,802</b>	<b>29,701</b>	<b>24,632</b>	<b>81,471</b>	<b>541,978</b>	<b>2,363,036</b>
Expected Pay-as-you-go Costs	902,772	566,741	47,540	20,123	101,403	397,338	2,035,917

**SECTION IV - MEMBERSHIP DATA AND BREAKDOWN OF RESULTS**

Census data effective June 30, 2013

<b>Number of Employees</b>	<b>Fire</b>	<b>Police</b>	<b>Public Works</b>	<b>Town Hall</b>	<b>Clerical &amp; Custodial</b>	<b>Teachers &amp; Admin</b>	<b>Total</b>
<b>Actives</b>							
Count	30	38	17	33	47	207	372
Average Age	38.6	35.2	42.7	50.2	49.1	47.4	45.7
Average Service	7.7	7.9	13.6	13.1	13.7	13.9	12.7
<b>Retirees</b>							
Count	43	49	5	2	9	79	187
Average Age	62.6	61.2	68.0	63.0	58.3	64.1	62.8
<b>Spouses</b>							
Count	38	40	2	1	3	-	84
Average Age	59.5	56.2	59.0	62.0	53.0	-	57.7
<b>Total</b>							
Count	111	127	24	36	59	286	643

## SECTION V - REQUIRED SUPPLEMENTARY INFORMATION

## Schedule of Funding Progress - 7.5%

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b) - (a) Unfunded AAL (UAL)	(a) / (b) Funded Ratio	Covered Payroll	[(b)-(a)] / (c) UAL as Percentage of Covered Payroll
July 1, 2006	688,276	23,390,739	22,702,463	2.94%	27,184,895	83.5%
July 1, 2007	1,583,115	23,136,012	21,552,897	6.84%	28,710,668	75.1%
June 30, 2009	2,500,343	32,387,961	29,887,618	7.72%	28,675,833	104.2%
June 30, 2011	3,338,311	29,463,119	26,124,808	11.33%	30,052,962	86.9%
June 30, 2013	4,018,150	33,178,340	29,160,190	12.11%	30,047,295	97.0%

## SECTION VI - NET OPEB OBLIGATION

GASB Statement No. 45 requires the development of Annual OPEB Cost and Net OPEB Obligation (NOO). If the employer always makes contributions equal to the Annual Required Contribution, the Annual OPEB Cost is equal to the Annual Required Contribution and the Net OPEB Obligation is zero. If the employer contributes in excess of the Annual Required Contribution, the amounts will be reflected in a Net OPEB Asset (NOA). In June 2011, the Town officially set up an OPEB trust fund, into which it deposited amounts that it had budgeted and set aside previously in a special revenue fund. Those amounts are treated as contributions below. The development of the NOO is shown in the following table.

### 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)	Contribution	Change in NOO (4) - (5)	NOO Balance
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2008	1,467,751	0	0	1,467,751	1,467,751	0	0
2009	1,535,690	0	0	1,535,690	1,285,734	249,956	249,956
2010	2,026,910	0	0	2,026,910	1,617,741	409,169	659,125
2011	2,120,292	49,434	52,307	2,117,419	2,147,161	(29,742)	629,383
2012	2,034,497	(13,659)	(11,046)	2,031,884	2,216,771	(184,887)	444,496
2013	2,120,378	33,337	27,640	2,126,075			

Note: Fiscal Year Ending 6/30/2008 - 6/30/2012 values are as published in audited financial statements.

## 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, but the Town has elected to do so.

In the amortization schedules shown on the following page, the amortization of the unfunded accrued liability is increasing from today's amount at 4.0% for 24 years starting with the valuation date. The contributions were computed assuming that the contribution is paid at the end of the fiscal year. The amounts shown assume that contributions in the amount of the Annual Required Contribution are made each year. The normal cost is expected to increase at the same rate as the assumed ultimate health care trend rate. Projected benefit payments 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 projection amounts for Fiscal Years after 2015 are shown for long-term illustrative purposes only.

## SECTION VII - SCHEDULE OF EMPLOYER CONTRIBUTIONS

## Full Prefunding Basis at 7.5%

Fiscal Year Ending In	Normal Cost	Amortization of UAL*	Interest	ARC**	Estimated Benefit Payments
2013 ***	472,557	1,532,857	114,964	2,120,378	1,893,658
2014	501,116	1,732,019	129,901	2,363,036	2,035,917
2015	523,666	1,801,300	135,098	2,460,064	2,137,521
2016	547,231	1,873,352	140,501	2,561,084	2,345,629
2017	571,856	1,948,286	146,121	2,666,263	2,427,842
2018	597,590	2,026,217	151,966	2,775,773	2,509,993
2019	624,482	2,107,266	158,045	2,889,793	2,597,476
2020	652,584	2,191,557	164,367	3,008,508	2,718,532
2021	681,950	2,279,219	170,941	3,132,110	2,809,876
2022	712,638	2,370,388	177,779	3,260,805	2,842,628
2023	744,707	2,465,204	184,890	3,394,801	2,975,371
2024	778,219	2,563,812	192,286	3,534,317	3,137,703
2025	813,239	2,666,364	199,977	3,679,580	3,217,008
2026	849,835	2,773,019	207,976	3,830,830	3,301,499
2027	888,078	2,883,940	216,296	3,988,314	3,290,088
2028	928,042	2,999,298	224,947	4,152,287	3,250,843
2029	969,804	3,119,270	233,945	4,323,019	3,201,227
2030	1,013,445	3,244,041	243,303	4,500,789	3,165,454
2031	1,059,050	3,373,803	253,035	4,685,888	3,175,918
2032	1,106,707	3,508,755	263,157	4,878,619	3,151,310
2033	1,156,509	3,649,105	273,683	5,079,297	3,058,292
2034	1,208,552	3,795,069	284,630	5,288,251	2,970,564
2035	1,262,937	3,946,872	296,015	5,505,824	3,026,354
2036	1,319,769	4,104,747	307,856	5,732,372	3,042,722
2037	1,379,159	4,268,937	320,170	5,968,266	3,095,793
2038	1,441,221	-	-	1,441,221	3,067,059
2039	1,506,076	-	-	1,506,076	3,228,111
2040	1,573,849	-	-	1,573,849	3,288,277
2041	1,644,672	-	-	1,644,672	3,352,912
2042	1,718,682	-	-	1,718,682	3,544,725
2043	1,796,023	-	-	1,796,023	3,655,769
2044	1,876,844	-	-	1,876,844	3,766,387
2045	1,961,302	-	-	1,961,302	3,740,631

\* 30-year closed amortization basis, starting with fiscal year 2008 (24 years for FY 14), increasing 4.0% per year.

\*\* Assumes payment is made at the end of the fiscal year.

\*\*\* Results based on June 30, 2011 valuation.

## SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

### TOWN OF MIDDLETOWN, ALL GROUPS

**Interest:** Full Prefunding: 7.50% per year, net of investment expenses

**Actuarial Cost Method:** Projected Unit Credit. Benefits are attributed ratably to service from date of hire until the benefit eligibility date; the first eligibility for retiree medical.

**Asset Valuation Method:** Market value.

**Healthcare Cost Trend Rate:** Applies to stated medical plan premiums, per capita medical costs, and Medicare Part B premium.

<u>Year</u>	<u>Pre-Medicare</u>	<u>Post-Medicare</u>
<b>2013</b>	8.50%	6.50%
<b>2014</b>	8.00%	6.25%
<b>2015</b>	7.50%	6.00%
<b>2016</b>	7.00%	5.75%
<b>2017</b>	6.50%	5.50%
<b>2018</b>	6.00%	5.25%
<b>2019</b>	5.50%	5.00%
<b>2020</b>	5.00%	4.75%
<b>2021 &amp; later</b>	4.50%	4.50%

**Dental Cost Trend Rate:** Increases in dental costs are assumed to be 4.5% per year.

**Administrative Costs:** All administrative costs are reflected in the premium information provided in Section III.

**Amortization Period:** 24-year level percent of pay assuming 4.0% increase, closed basis. The amortization period is a specific number of years that is counted from one date, declining to zero with the passage of time.

**SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS****TOWN OF MIDDLETOWN, ALL GROUPS**

- Valuation Cycle:*** Valuation is performed every other year, and is used to determine Annual Required Contribution amount for 2 years beginning with the valuation date.
- Employee Contributions:*** Fire employees' contributions to the trust are not directly reflected in the valuation. The Annual Required Contribution amount is assumed to reflect overall contribution amount for the fiscal year, with the Town's required Normal Cost contribution to be directly reduced by any contribution made by the employees. This treatment is consistent with the unit credit actuarial cost method.
- Pre-Age 65 Retirees:*** Current retirees who are under age 65 are assumed to remain in their current medical plan until age 65.
- Current active employees who are assumed to retire prior to age 65 are valued based on the premium applicable to future retiree coverage. If multiple options are available, we developed a weighted-average premium is based on the medical plan coverage of current retirees under age 65.
- Spouses are assumed to cost the same as a retiree at the same age. The cost for dependent children is assumed to be 20% of the individual cost. Dependent children as assumed to be covered as long as the spouse is covered.
- Post-Age 65 Retirees:*** Current retirees over age 65 remain in their current medical plan until death or termination of coverage for purposes of measuring their costs and contributions. It is assumed that current retirees under age 65 and future retirees will become eligible for Medicare when they reach age 65, except as noted.

## SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

### TOWN OF MIDDLETOWN, ALL GROUPS

***Medical Plan Costs:***

We understand that the Town accesses health benefits through the Rhode Island Interlocal Risk Management Trust. For valuation purposes, the cost of coverage for non-Medicare plans was based on the stated premium for individual coverage adjusted for the age of the participant, based on the actual age distribution of active employees and non-Medicare eligible retirees covered for medical care. The cost of coverage for Medicare plans was based on the stated premium adjusted for the age of the participant, based on the actual age distribution of Medicare retirees. Employee cost sharing is based on current individual and family rates.

***Age-Based Morbidity:***

Per capita costs are adjusted to reflect expected cost increases related to age as applicable as described above. The increase in the assumed costs for non-Medicare plans was assumed to be:

<u>Age</u>	<u>Annual Increase Retiree</u>
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%

***Medicare Part B Premium:*** Premium amount for fiscal year 2013-2014 is assumed to be \$104.90 per month; this is the Medicare Part B premium in effect for most Medicare eligibles in 2013 and 2014.

**SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS****TOWN OF MIDDLETOWN, ALL GROUPS**

***Dental Plan Costs:*** Dental plan costs are based on the stated premium individual premium of \$28.55 per month. The premiums are assumed to be self-supporting, with costs that do not vary by age.

Spouses are assumed to cost the same as the retiree. The cost for dependent children is assumed to be 20% of the individual cost. Dependent children are assumed to be covered as long as the spouse is covered.

***Marital Status:*** 80% of employees are assumed to have a covered spouse at retirement, except as noted. Teachers and Administrators are not assumed to cover their spouses as retirees must pay 100% of the stated premium for dependent coverage. Wives are assumed to be three years younger than their husbands.

***Participation:*** 100% of police retirees are assumed to elect coverage since their coverage is non-contributory. 90% of fire retirees are assumed to be covered. 80% of other town employees (Town Hall and Public Works) are assumed to participate in the retiree medical plan, except as noted.

90% of Teachers are assumed to elect medical coverage, while 10% are assumed to take the \$2,500 buyback option. 90% of future Clerical & Custodial School retirees are assumed to elect medical coverage, of whom 100% are expected to also elect dental insurance.

Teaching Assistants and Library Employees are not eligible for postretirement medical coverage and are therefore assumed to not elect coverage.

## SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

### TOWN OF MIDDLETOWN, TOWN HALL & PUBLIC WORKS EMPLOYEES

**SEPARATIONS FROM ACTIVE SERVICE:** Employees participating in the town pension plan are assumed to separate from active service according to the table below. Representative values of the assumed annual rates of withdrawal and vesting, disability, death and service retirement are as follows:

Age	Disability	Retirement		Years of Service	Rates of Withdrawal
		Male	Female		
25	0.0002			0	0.150
30	0.0003			1	0.120
35	0.0006			2	0.100
40	0.0010			3	0.090
45	0.0015			4	0.080
50	0.0019	0.010	0.015	5	0.076
55	0.0024	0.020	0.055	10	0.054
60	0.0028	0.120	0.050	15	0.033
62	0.0030	0.300	0.150	20	0.020
65	0.0030	0.400	0.150	25	0.010
69	0.0030	0.300	0.200	30+	0.000
70	0.0000	1.000	1.000		

Employees participating in the state pension plans are assumed to separate based on the General Employees' rate tables published in the 2010 MERS Experience Study<sup>1</sup>. The retirement rates published in this study were modified in the June 2012 valuation report published by Gabriel, Roeder & Smith to account for the new eligibility criteria under RIRSA. Active employees who had their first eligibility date deferred under the law were assumed to retire when first eligible for an unreduced pension benefit. To account for this deferral period, an extra 10% was added to the retirement rates for each year the pension was deferred.

This deferral period was calculated based on the difference between the RIRSA date and the eligibility date in effect before RIRSA was enacted. In some cases, the RIRSA date was furnished by ERSRI. In other cases, the RIRSA date was calculated by Buck based on the employee's RIRSA retirement schedule (1-4 for General employees). Certain grouping of retirement ages was employed to simplify the calculations.

Retirement rates are assumed to apply when the employee becomes eligible for both retiree medical coverage and for an unreduced pension. Otherwise, withdrawal rates are assumed to apply.

<sup>1</sup> Employees' Retirement System of Rhode Island: Actuarial Experience Study for the Six-Year Period Ending June 30, 2010, Supplement Covering The Municipal Employees' Retirement System. May 23, 2011, <https://www.ersri.org/public/actuarialValuations/index.jsp>

## SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

### TOWN OF MIDDLETOWN, TOWN HALL & PUBLIC WORKS EMPLOYEES

***Mortality.*** The RP-2000 Combined Mortality Tables for males and females projected seven years beyond the valuation date for annuitants and 15 years beyond the valuation date for non-annuitants using Scale AA. For the period after disability retirement, the RP-2000 Combined Table projected seven years beyond the valuation date set forward 10 years is used.

## SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

### TOWN OF MIDDLETOWN, POLICE AND FIRE

**SEPARATIONS FROM ACTIVE SERVICE:** Employees participating in the town pension plan are assumed to separate from active service according to the table below. Representative values of the assumed annual rates of withdrawal and vesting, disability, death and service retirement are as follows:

Age	Disability	Retirement	Years of Service	Rates of Withdrawal
25	0.0020		0	0.015
30	0.0030		1	0.015
35	0.0030		2	0.015
40	0.0030		3	0.015
45	0.0100	0.010	4	0.015
50	0.0125	0.020	5	0.015
55	0.0120	0.150	6	0.015
60	0.0085	0.200	7	0.015
62	0.0075	0.250	8	0.015
65	0.0000	1.000	9	0.015
69			10	0.015
			11+	0.000

Employees participating in the state pension plan are assumed to separate based on the Police & Fire Employees' rate tables published in the 2010 MERS Experience Study<sup>2</sup>.

**Mortality:** The RP-2000 Combined Mortality Tables for males and females projected seven years beyond the valuation date for annuitants and 15 years beyond the valuation date for non-annuitants using Scale AA. For the period after disability retirement, the RP-2000 Combined Table projected seven years beyond the valuation date set forward 10 years is used.

<sup>2</sup> Employees' Retirement System of Rhode Island: Actuarial Experience Study for the Six-Year Period Ending June 30, 2010, Supplement Covering The Municipal Employees' Retirement System. May 23, 2011, <https://www.ersri.org/public/actuarialValuations/index.jsp>

**SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS****TOWN OF MIDDLETOWN, TEACHERS**

**SEPARATIONS FROM ACTIVE SERVICE:** All teachers are assumed to participate in the state pension plan. All are assumed to separate from active service based on the Teachers termination rate table published in the 2010 ERS Experience Study<sup>3</sup>. The retirement rates published in this study were modified in the June 2012 valuation report published by Gabriel, Roeder & Smith to account for the new eligibility criteria under RIRSA. Active employees who had their first eligibility date deferred under the law were assumed to retire when first eligible for an unreduced pension benefit. To account for this deferral period, an extra 10% was added to the retirement rates for each year the pension was deferred.

This deferral period was calculated based on the difference between the RIRSA date and the eligibility date in effect before RIRSA was enacted. In some cases, the RIRSA date was furnished by the Town. In other cases, the RIRSA date was calculated by us based on the employee's RIRSA retirement schedule (e.g. A, B, AB Eligible, B1 Not Eligible etc.). Certain grouping of retirement ages was employed to simplify the calculations.

Retirement rates are assumed to apply when the employee becomes eligible for both retiree medical coverage and for an unreduced pension. Otherwise, withdrawal rates are assumed to apply.

**Mortality:** The RP-2000 Combined Mortality Tables for males and females projected seven years beyond the valuation date for annuitants and 15 years beyond the valuation date for non-annuitants using Scale AA. For the period after disability retirement, the RP-2000 Combined Table projected seven years beyond the valuation date set forward 10 years is used.

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<sup>3</sup> Employees' Retirement System of Rhode Island: Actuarial Experience Study for the Six-Year Period Ending June 30, 2010. May 23, 2011, <https://www.ersri.org/public/actuarial/valuations/index.jsp>  
Town of Middletown  
Post-Retirement Benefits Plan  
June 30, 2013

## SCHEDULE B - SUMMARY OF PROGRAM PROVISIONS

**Retiree Medical Insurance:** Retired and disabled employees pay a variable portion of their post-retirement medical costs, which varies by division:

<i>Division</i>	<i>Retiree Medical Coverage Provided by Town</i>
Town Hall	For retirements prior to July 1, 2007, retirees pay 80% of the stated premium for individual or family coverage to age 65. For retirements on or after July 1, 2007, retirees pay 50% of the premium for individual or family coverage to age 65. Dental coverage is available with the retiree paying full cost. There is no coverage after age 65.
Police	Medical benefits are non-contributory for retired Police. Prior to age 65, the retiree retains the medical benefit the retiree had as an active employee, except that work related injury coverage is eliminated. After age 65, all retirees (and spouses, if applicable) will transfer to coverage under Plan 65. Retirees have an option to purchase optional Blue Medicare Rx benefit, in addition to the Plan 65 medical coverage. The additional amount the retiree pays for this coverage is assumed to fully cover the additional cost of the coverage. Dental coverage is available with the retiree paying full cost.
Fire	For retirements after February 1, 2011, retirees pay 20% of the stated premium for coverage of the medical benefit the retiree had as an active employee, except that work related injury coverage is eliminated. After age 65, the retiree (and spouse, if applicable) will transfer to coverage under Plan 65. Certain retired Fire fighters are grandfathered either in continuing in the non-Medicare coverage for life, or for reimbursement of their Medicare Part B premiums once they enroll in Medicare Part B. Dental coverage is available with the retiree paying full cost.
	In addition to contributions during retirement, effective February 2011, all fire employees will contribute 1.5% of their base pay to the OPEB trust.

## SCHEDULE B - SUMMARY OF PROGRAM PROVISIONS

Public Works	<p>The retiree receives only individual coverage. Retirees pay 35% of the stated premiums to age 65, followed by 50% of Plan 65 premiums until age 70. Dental coverage is available with the retiree paying full cost.</p> <p>There are 2 special cases where coverage until age 65 is covered by the town for both the employee and spouse. In addition, there is one current Medicare eligible who receives Town-subsidized coverage for life.</p>
Clerical & Custodial	<p>If the retirement date is on or after July 1, 2003, the retiree receives the medical coverage in effect at the date of retirement for 5 years or to age 65, whichever is first (the last two years of this coverage is individual only). The retiree also can elect dental coverage. Custodial retirees pay 8% of stated premiums. Clerical retirees pay the contribution percentage applicable when they retire. All future retirees will pay 20% of stated premium in retirement.</p> <p>No rebate was reflected for clerical or custodial retirees who waive subsidized coverage.</p>
Teachers	<p>Teachers (including Administrators) receive Town-paid medical coverage to the latter of the 10<sup>th</sup> anniversary of their retirement and attainment of age 65, subject to the following required contributions:</p> <ul style="list-style-type: none"> <li>○ 3% of premium for individual coverage for the first 7 years of retirement</li> <li>○ 20% of premium for individual coverage for the next 3 years of retirement</li> <li>○ 50% of premiums for individual coverage until age 65, death or Medicare eligibility.</li> </ul> <p>Dependent coverage is available at 100% of stated premium.</p>
Teaching Assistants	<p>Eligible for COBRA coverage only upon retirement. The COBRA rate is assumed to be self-supporting.</p>
Other	<p>Grandfather provisions apply in certain groups.</p>

## SCHEDULE B - SUMMARY OF PROGRAM PROVISIONS

- Dental Insurance:** Clerical & Custodial members are eligible for Town subsidized dental coverage. If the retirement date is prior to July 1, 2003, the retiree receives 100% dental coverage in effect at date of retirement for 3 years or to age 65, whichever is first. If the retirement date is on or after July 1, 2003, the retiree receives 100% medical and dental coverage in effect at date of retirement for 5 years or to age 65, whichever is first. (The last two years of coverage are individual only.) Other groups are not eligible for town subsidized dental coverage in retirement.
- Dependent Coverage:** Coverage ceases on the death of the retiree, except for Police and Fire. The surviving dependent of a Police or Fire retiree continues in lifetime coverage after the death of the retiree. No coverage to spouse of employee who dies in active service.
- Administrative Costs:** All administrative costs are reflected in the premiums disclosed in Section III.
- Retirement Eligibility:**
- Police and Fire employees - 20 years of service.
  - Town employees - 20 years of continuous service.
  - Public Works employees - age 60 with 10 years of service or 30 years of service. In addition, in order to qualify for health coverage, must have 10 years of continuous service and be age 60.
  - Library employees – No retiree medical coverage other than COBRA.
  - Teachers and Administrators: - In order to qualify for a pension, based on the individual's RIRSA date. In order to qualify for medical, must either terminate with a pension or after age 55, with 15 years of service.
  - Teaching assistants – No retiree medical coverage other than COBRA.
  - Other School employees - 15 years of service.
- Ordinary Disability 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 collected any funds under ERRP. Due to the short-term nature of the program, which is now closed to new applicants, we do not reflect this program in long-term GASB 45 liabilities.

**Removal of Lifetime Maximum:** Any additional cost due to plan changes under insurance reform requirements such as removal of annual or lifetime maximums is assumed to already be reflected in the premium rates provided as of the valuation date.

**Medicare Advantage Plans - Effective January 1, 2011:** The law provides for reductions to the federal subsidies that would be provided to Medicare Advantage plans starting in 2011. We have considered the impact of these changes on the overall cost of the Medicare offerings of the plan in setting the trend assumption.

**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. Any impact on contributions received due to plan changes under insurance reform requirements such as expansion of coverage to adult children assumed to already be reflected in the premium rates provided as of the valuation date.

**Medicare Part D Subsidy - Shrinking Medicare Prescription Drug "Donut Hole"- Starting January 1, 2011:** Medicare Part D Retiree Drug Subsidy payments are not reflected as an ongoing offsetting item in GASB 45 valuations, and so no direct impact is reflected. Improved Medicare Part D is not assumed to have any impact on participation, in Town subsidized coverage, as the Town subsidy amounts remain in excess of amounts that will be provided through Medicare sponsored coverage.

**Excise Tax on High-Cost Employer Health Plans (aka Cadillac Tax) - Effective January 1, 2018:** We have estimated the impact of the High Cost Employer Health Plans on the Town sponsored coverage and included it in the liabilities. The estimate was based on the stated premiums, and reflected a 3.0% assumed CPI rate.

## SCHEDULE C - CONSIDERATIONS OF HEALTH CARE REFORM

**Health Insurance Marketplace:** Coverage through the public exchange (or “Marketplace”) created by the Affordable Care Act will become available starting in 2014, with open enrollment scheduled to begin on October 1, 2013. This will introduce a new alternative health coverage choice for the Town’s retirees and their dependents. Based on the Town’s current retiree premium structure, we would not expect that many retirees would choose the public option over the Town’s plan. However, in some cases, particularly those involving dependent coverage, some may find alternative coverage in the Marketplace. Given uncertainty around Marketplace pricing and networks, we have not made any assumption in this valuation for possible Town plan election drop-off due to this new alternative coverage. However, we recommend that the Town monitor this issue and explore the potential opportunities created by the Marketplace both for the plan and the Town’s participants.

**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.