TOWN OF NEEDHAM

POST EMPLOYMENT BENEFITS ANALYSIS

July 1, 2009

A Xerox Company

buckconsultants

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SECTION I - OVERVIEW

The Town of Needham has engaged Buck Consultants to prepare an actuarial valuation of their post-retirement benefits program as of June 30, 2009. The Town provided employee data and premium information.

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 Government Accounting Standards Board's Statements Nos. 43 and 45, respectively entitled "Financial Reporting for Post employment Benefit Plans Other Than Pension Plans" and "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions."

Liabilities have been determined based on an 8.0% discount rate, which assumes that benefits are pre-funded.

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

During the last two years, the Plan realized an increase in the accrued liability of $2,215,819. The expectation was an increase of $3,541,951. The difference reflects the net effect of Plan experience but mainly is due to a shift in the blend of plans elected by retirees and also a reduction of the participation assumption from 85% to 70%.

Daniel Sherman is an Associate of the Society of Actuaries. He is a Member of the American Academy of Actuaries and meets the Qualification Standards of the Academy to render the actuarial opinions contained herein. This report has been prepared in accordance with all applicable Actuarial Standards of Practice, and we are available to answer questions concerning it.

Respectfully Submitted,

BUCK CONSULTANTS, AN ACS COMPANY

David Sherman

Daniel Sherman, ASA, MAAA, EA

Director and Consulting Actuary

6/17/10

Date

SECTION II – REQUIRED INFORMATION

a)	Actuarial valuation date - fiscal year beginning		June 30, 2009		July 1, 2007		Difference
b)	Actuarial Value of Assets	$	5,008,484	$	3,075,317	$	1,933,167
c)	Actuarial Accrued Liability						
	Active participants	$	18,751,346	$	13,896,975	$	4,854,371
	Retired participants		30,136,781		32,775,333		-2,638,552
	Total AAL	$	48,888,127	$	46,672,308	$	2,215,819
d)	Unfunded Actuarial Liability "UAL" [c - b]	$	43,879,643	$	43,596,991	$	282,652
e)	Funded ratio [b / c]		10.2%		6.6%		3.7%
f)	Annual covered payroll		61,582,295		59,616,565		1,965,730
g)	UAL as percental of covered payroll		71.3%		73.1%		
h)	Normal Cost for fiscal year	$	1,233,079	$	851,810	$	381,269
i)	Amortization of UAL for fiscal year *	$	2,265,092	$	2,250,501	$	14,591
j)	Interest to end of fiscal year	$	0	$	0	$	
k)	Annual Required Contribution "ARC" for fiscal year [h + i + j]	$	3,498,171 **	$	3,102,311	$	395,860

* 30-year amortization, increasing 4.5% per year for 2009

** For comparison purposes only. Actual ARC for FY '10 and '11 based on projected appropriations per 2007 report.

SECTION III - MEMBERSHIP DATA AND MEDICAL PREMIUM

Annual Premiums effective July 1, 2009

Health benefits are available to employees and retirees through a number of plans offered through the West Suburban Health Group. The following are the most popular.

Non-Medicare Plans:	Town	Member	Total
Harvard Pilgrim EPO			
Individual	$5,554	$1,706	$7,260
Family	$13,058	$5,866	$18,924
Tufts EPO			
Individual	$5,550	$1,890	$7,440
Family	$12,418	$7,046	$19,464
Network Blue			
Individual	$5,812	$2,000	$7,812
Family	$13,836	$7,128	$20,964
Medicare Plans:			
MEDEX	$2,592	$2,592	$5,184
Tufts 65	$2,766	$1,302	$4,068
Managed Blue for Seniors	$3,153	$1,484	$4,637
First Seniority	$1,899	$1,617	$3,516

Medicare plans are individual policies requiring Part A and B.

SECTION IV – REQUIRED SUPPLEMENTARY INFORMATION

Number of Employees	RTS	SEWER	WATER	FIRE	POLICE	OTHER	TOTAL
Active	9	11	16	72	61	934	1,103
Retired (medical & life)	2	11	9	56	44	475	597
Retired (life only)	-	-	1	3	4	61	69
Total	11	22	26	131	109	1,470	1,769
Accrued Liability @ 8%							
Active	126,774	239,045	198,582	3,033,462	1,904,030	13,249,453	18,751,346
Retired	61,046	602,232	505,372	3,161,147	2,807,823	22,999,161	30,136,781
Total	187,820	841,277	703,954	6,194,609	4,711,853	36,248,614	48,888,127
Assets	19,242	86,187	72,119	634,624	482,719	3,713,593	5,008,484
Unfunded Accrued Liability (UAL)	168,578	755,090	631,835	5,559,985	4,229,134	32,535,021	43,879,643
FY 2012 Annual Required Contribution @ 8%							
Normal Cost	10,925	16,114	25,858	93,855	92,830	1,187,862	1,427,444
Amortization of UAL	9,523	42,656	35,694	314,093	238,910	1,837,955	2,478,831
Total	20,448	58,770	61,552	407,948	331,740	3,025,817	3,906,275

SCHEDULE OF FUNDING PROGRESS

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
June 30, 2005	2,131,044	43,172,705	41,041,661	4.9%	51,915,780	79.1%
June 30, 2007	3,075,317	46,672,308	43,596,991	6.6%	59,616,565	73.1%
June 30, 2009	5,008,484	48,888,127	43,879,643	10.2%	61,582,295	71.3%

Development of OPEB Cost and Net OPEB Obligation (NOO)

Year Ending June 30	(a) Annual Required Contribution	(b) Interest on NOO	(c) Amortization of NOO	(d) Annual OPEB Cost (a)+(b)-(c)	(e) Actual Contribution	(f) Change in NOO (d)-(e)	(g) NOO Balance
2009	3,102,311	0	0	3,102,311	3,102,311	0	0
2010	3,446,556	0	0	3,446,556			

SECTION V – SCHEDULE OF EMPLOYER CONTRIBUTIONS

The Government Accounting Standards Board's Statement No. 45 "Accounting and Financial Reporting by Employers for Post employment 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.

In the amortization schedule shown on the following page, the amortization of the unfunded accrued liability is assumed to increase annually by 4.5%. The normal cost is expected to increase at the same rate as the assumed health care trend rate. The contributions were computed assuming that the contribution is paid on July 1, at the beginning of the fiscal year.

SECTION V – SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ending In	Normal Cost	Amortization of UAL	Total Contribution
2010	988,952	2,457,604	3,446,556
2011	1,058,179	2,568,196	3,626,375
2012	1,427,444	2,478,831	3,906,275
2013	1,498,816	2,590,379	4,089,195
2014	1,573,757	2,706,946	4,280,703
2015	1,652,445	2,828,759	4,481,204
2016	1,735,067	2,956,053	4,691,120
2017	1,821,820	3,089,075	4,910,895
2018	1,912,911	3,228,083	5,140,994
2019	2,008,557	3,373,347	5,381,904
2020	2,108,985	3,525,148	5,634,133
2021	2,214,434	3,683,780	5,898,214
2022	2,325,156	3,849,550	6,174,706
2023	2,441,414	4,022,780	6,464,194
2024	2,563,485	4,203,805	6,767,290
2025	2,691,659	4,392,976	7,084,635
2026	2,826,242	4,590,660	7,416,902
2027	2,967,554	4,797,240	7,764,794
2028	3,115,932	5,013,116	8,129,048
2029	3,271,729	5,238,706	8,510,435
2030	3,435,315	5,474,448	8,909,763
2031	3,607,081	5,720,798	9,327,879
2032	3,787,435	5,978,234	9,765,669
2033	3,976,807	6,247,255	10,224,062
2034	4,175,647	6,528,381	10,704,028
2035	4,384,429	6,822,158	11,206,587
2036	4,603,650	7,129,155	11,732,805
2037	4,833,833	7,449,967	12,283,800
2038	5,075,525	7,785,216	12,860,741
2039	5,329,301	8,135,551	13,464,852
2040	5,595,766	-	5,595,766

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

TOWN OF NEEDHAM, ALL GROUPS

Interest 8.00% per year, net of investment expenses, pre-funding in a trust invested under the prudent man rules.

Medical Care Inflation:

Year	Inflation Rate
2009	7.0%
2010	6.5%
2011	6.0%
2012	5.5%
2013 & after	5.0%

***Actuarial Cost Method*:** Projected Unit Credit

***Amortization period*:** 30-year level percent of pay assuming 4.5% increasing, open basis. The amortization period is a specific number of years that is counted from one date, declining to zero with the passage of time.

***Participation*:** 70% of future retirees are assumed to participate in the retiree medical plan.

Marital status: 60% of employees are assumed to have a covered spouse at retirement. Wives are assumed to be three years younger than their husbands.

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 with a weighted-average premium. This weighted-average premium is based on the medical plan coverage of current retirees under age 65.

At age 65, all participants are assumed to participate in post 65 plans in the same proportions as current retirees over age 65.

Post-Age 65 Retirees: Current retirees over age 65 remain in their current medical plan until death.

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 Retiree
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%

Medical Plan Costs: Sample estimated net per capita incurred claim costs for 2009-2010 for a retiree are shown below:

Age	Non-Medicare	Medicare
60	$10,424	
64	$12,053	
65	$6,848	$3,431
70	$8,017	$4,016

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

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:

Age	Disability	Service Retirement	
		Male	Female
25	.02%		
30	.03		
35	.06		
40	.10		
45	.15		
50	.19	1.0%	1.5%
55	.24	2.0	5.5
60	.28	12.0	5.0
62	.30	30.0	15.0
65	.30	40.0	15.0
69		30.0	20.0

Years of Service	Rates of Withdrawal
0	15.0%
1	12.0
2	10.0
3	9.0
4	8.0
5	7.6
10	5.4
15	3.3
20	2.0
25	1.0
30+	0.0

Mortality: The RP-2000 Combined Healthy Table. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 2 years is used.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

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	.02%
30	.03
35	.06
40	.10
45	.15
50	.19
55	.24
60	.28
62	.30
65	.30
69	

Years of Service	Rates of Withdrawal
0	15.0%
1	12.0
2	10.0
3	9.0
4	8.0
5	7.6
10	5.4
15	3.3
20	2.0
25	1.0
30+	0.0

	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 Combined Healthy Table. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 2 years is used.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

GROUP 4 (POLICE AND FIRE)

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	0.20%	
30	0.30	
35	0.30	
40	0.30	
45	1.00	1.0%
50	1.25	2.0
55	1.20	15.0
60	0.85	20.0
62	0.75	25.0
65	0.00	100.0
69		

Years of Service	Rates of Withdrawal
0	1.5%
1	1.5
2	1.5
3	1.5
4	1.5
5	1.5
6	1.5
7	1.5
8	1.5
9	1.5
10	1.5
11+	0.0

Mortality: The RP-2000 Combined Healthy Table. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 2 years is used.

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.
Spousal Coverage:	Current and future retirees may elect to include their spouses as part of their post-retirement benefits.
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:	Age 55 with 10 years of service, or 20 years of service.
Life Insurance:	Retirees are provided with $2,000 face value life insurance, with 50% of the premium covered by the Town.

SCHEDULE C - 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 C - 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.