



October 19, 2012

Ms. Maryanne Bilodeau  
Asst. Town Manager/HR Director  
Town of Sudbury  
278 Old Sudbury Road  
Sudbury MA 01776

Dear Maryanne:

As requested, we have provided additional information relating to the Town of Sudbury's Other Postemployment Benefits (OPEB) July 1, 2011 valuation that we recently completed. Specifically, we have provided the following with respect to your July 16, 2012 request for additional information:

1. The impact on the OPEB liability as a result of the Town retirees transitioning to the Group Insurance Commission (GIC),
2. The impact on the OPEB liability as a result of delayed retirement from age 55 to age 60,
3. An estimate of the OPEB funding cost for newly hired employees and
4. Recommended actions by the Town to reduce the OPEB liability.

Transition to the Group Insurance Commission (GIC)

Effective July 1, 2012, the Town of Sudbury offers health insurance coverage to employees, retired employees and their covered spouses through the GIC. The recently completed valuation of the Town's OPEB pursuant to GASB 45 reflected the change in coverage to the GIC, as GASB 45 requires that the projection of benefits should include all benefits covered by the current substantive plan (the plan terms as understood by the employer and plan members) at the time of each valuation including any changes to plan terms that have been made and communicated to employees. Offering coverage through the GIC decreased the OPEB accrued liability by approximately \$15,959,000, based on the results of the recently completed July 1, 2011 valuation. The impact on the 2012 fiscal year annual required contribution (ARC) as a result of the change to the GIC is a reduction of approximately \$868,000.

### Delay Retirement to Age 60

Currently, eligibility for postemployment benefits is attainment of age 55 with at least 10 years of creditable service or at least 20 years of creditable service. We determined the impact on the unfunded actuarial accrued liability, normal cost and annual required contribution (ARC) of delayed retirements to age 60 under the assumption that a percentage of all employees assumed to retire prior to age 60 will delay retirement to age 60. We analyzed three distinct scenarios of the percentage of employees assumed to retire prior to age 60 who will delay retirement until age 60 – 10%, 20% and 50%.

The development of the decrease in the annual required contribution (ARC) as a result of the delayed retirements to age 60 under each of these scenarios is presented in Exhibit I. The summary of the impact on the accrued liability and ARC is presented below:

Decrease in:	Percentage of Employees Electing to Delay Retirement		
	10%	20%	50%
Accrued Liability	\$63,034	\$131,923	\$373,136
ARC	\$9,986	\$20,818	\$58,279

Note that any savings as a result of recent pension reform is not anticipated in these estimates as the legislation only impacts new employees hired after April 2, 2012.

The retirement assumptions utilized in the July 1, 2011 valuation and the assumptions under the 10%, 20% and 50% scenarios described above are presented in Exhibit II. Note that in each scenario the retirement assumption at age 60 is adjusted to ensure that the same percentage of employees as under the baseline assumptions will retire at age 60 and later.

### Estimate of OPEB Cost for New Hires

Presented in Exhibit III is the estimate of OPEB cost for the 2012 fiscal year for new hires based on age, gender and group (General Town Employees, Public Safety and Teachers), comparing the cost for employees hired prior to April 2, 2012 with employees hired on or after April 2, 2012. Specifically, eligibility for benefits (pension and OPEB) for employees hired before April 2, 2012 is (1) 20 years of creditable service or (2) attainment of age 55 with 10 years of creditable service for Group 1 employees and attainment of age 55 for Group 4 employees. Chapter 176 of the Acts of 2011 changed eligibility for employees hired on or after April 2, 2012 to attainment of age 60 with 10 years of service for Group 1 employees and attainment of age 55 for Group 4 employees.

The cost, or annual required contribution (ARC), is comprised of the normal cost and the amortization of any unfunded actuarial accrued liability. For new hires, the ARC is only comprised of the normal cost as no accrued liability has yet been generated for these employees. There is an exception - Group 4 employees hired on or after age 55 reach their full eligibility age at their date of hire, so the cost for Group 4 employees hired on or after age 55 is the amortization of the accrued liability.

The ARC for the following fiscal year, 2013, is the 2012 cost increased by the discount rate, or 3½%.

### Recommendations to Reduce the Town's OPEB Liability

The Town of Sudbury has currently taken positive steps towards reducing the OPEB liability while recently enacted pension reform legislation provides for delayed retirements for new hires. Town employees and retirees are now covered under plans offered by the Group Insurance Commission (GIC), resulting in over a \$15 million reduction to the OPEB liability as of July 1, 2011. Chapter 176 of the Acts of 2011 increases the minimum retirement age for most municipal employees from age 55 to age 60 and increases the eligibility ages for receipt of full pensions, both for new employees hired on or after April 2, 2012. While the savings in retiree health premiums as a result of pension reform will not be realized for several years, delayed retirements generally reduce costs as there are fewer years to provide retiree medical coverage while simultaneously providing health benefits for a replacement employee.

Prefunding benefits in an irrevocable OPEB trust allows the use of a higher discount rate under GASB 45, reflecting the yield on the investments that are expected to be used to finance the payment of benefits, with consideration given to the nature and mix of investments. In 2006, the Town established an irrevocable OPEB trust, and recently has contributed and plans to contribute any realized health insurance savings up to the budgeted amount. Currently, the Town utilizes a discount rate of 3½%, approximating the rate of return on assets in the Town's general fund. It is anticipated that future investment income generated by the OPEB trust will be used to fund a portion of the retiree medical benefits. Partially funding the OPEB will also allow the Town to use a blended discount rate which is higher than the anticipated rate of return on the general fund that reflects the proportion of plan and employer assets expected to be used to fund the benefits. Use of a higher discount rate generates lower liabilities.

Municipal Health Care Reform, passed in 2011, requires eligible retirees to enroll in a Medicare plan. The Town should be diligent in ensuring that Medicare-eligible retirees move out of the non-Medicare plans and are covered under the GIC Medicare plans.

Section 9A1/2 of Chapter 32B provides for reimbursement for health premiums paid by the Town attributable to retirees who have creditable service in other municipalities. The Town must likewise reimburse for health premiums paid by other municipalities on behalf of their retirees who have creditable service in Sudbury but retired elsewhere. The savings here may not be substantial if reimbursements received are close to those paid.

Finally, Chapter 176 of the Acts of 2011 established a Retiree Health Care Commission. According to the Mass.gov website, "The goal of the commission is to investigate and study retiree healthcare and other non-pension benefits. This review of retiree health care benefits offers an opportunity to reduce the cost of these benefits in the future to both preserve the benefit for public employees and to prevent budget cuts in other areas as health care costs continue to escalate." The work of the Commission will consider benefit adequacy and cost, cost-sharing arrangements and other aspects of the cost to provide health care to public employees and retirees. We anxiously await the report with the Commission's recommendations and possible proposed legislation, which is expected by the end of November, 2012.

Ms. Maryanne Bilodeau  
October 19, 2012  
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In closing, we are happy to answer any questions you may have regarding the material we have provided in this supplemental report.

Sincerely,

A handwritten signature in black ink that reads "Linda Bournival". The signature is written in a cursive, flowing style.

Linda L. Bournival, FSA, EA  
Consulting Actuary

enclosures

Town of Sudbury  
 Analysis of Delayed Retirement to Age 60  
 Based on Results of July 1, 2011 GASB 45 Valuation

	10% of Employees Delay Retirement			20% of Employees Delay Retirement			50% of Employees Delay Retirement		
	Baseline	Delayed Retirement (10%)	Decrease	Baseline	Delayed Retirement (20%)	Decrease	Baseline	Delayed Retirement (50%)	Decrease
<b>Accrued Liability</b>									
Group 1	9,610,802	9,607,803	2,999	9,610,802	9,605,044	5,758	9,610,802	9,595,933	14,869
Group 4	3,216,258	3,189,837	26,421	3,216,258	3,161,928	54,330	3,216,258	3,068,651	147,607
Teachers	21,448,181	21,414,567	33,614	21,448,181	21,376,346	71,835	21,448,181	21,237,521	210,660
<b>Total</b>	<b>34,275,241</b>	<b>34,212,207</b>	<b>63,034</b>	<b>34,275,241</b>	<b>34,143,318</b>	<b>131,923</b>	<b>34,275,241</b>	<b>33,902,105</b>	<b>373,136</b>
<b>Normal Cost</b>									
Group 1	223,455	223,224	231	223,455	222,993	462	223,455	222,250	1,205
Group 4	257,583	255,403	2,180	257,583	253,092	4,491	257,583	245,331	12,252
Teachers	1,265,294	1,261,368	3,926	1,265,294	1,257,062	8,232	1,265,294	1,242,041	23,253
<b>Total</b>	<b>1,746,332</b>	<b>1,739,995</b>	<b>6,337</b>	<b>1,746,332</b>	<b>1,733,147</b>	<b>13,185</b>	<b>1,746,332</b>	<b>1,709,622</b>	<b>36,710</b>
<b>Annual Required Contribution (ARC)</b>									
Normal Cost	1,746,332	1,739,995		1,746,332	1,733,147		1,746,332	1,709,622	
Actuarial Accrued Liability (AL)	34,275,241	34,212,207		34,275,241	34,143,318		34,275,241	33,902,105	
Assets	127,749	127,749		127,749	127,749		127,749	127,749	
Unfunded Accrued Liability (UAL)	34,147,492	34,084,458		34,147,492	34,015,569		34,147,492	33,774,356	
Amortization of UAL	1,793,461	1,790,150		1,793,461	1,786,532		1,793,461	1,773,863	
Interest	123,893	123,555		123,893	123,189		123,893	121,922	
<b>Annual Required Contribution (ARC)</b>	<b>3,663,686</b>	<b>3,653,700</b>	<b>9,986</b>	<b>3,663,686</b>	<b>3,642,868</b>	<b>20,818</b>	<b>3,663,686</b>	<b>3,605,407</b>	<b>58,279</b>

Town of Sudbury  
 Analysis of Delayed Retirement to Age 60  
 Based on Results of July 1, 2011 GASB 45 Valuation

Exhibit II

Retirement Assumptions  
 Baseline

Age	Group 1		Group 4 All	Teachers					
	Male	Female		0-19 Years		20-29 Years		30+ Years	
				Male	Female	Male	Female	Male	Female
45	0.00%	0.00%	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
46	0.00%	0.00%	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
47	0.00%	0.00%	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
48	0.00%	0.00%	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
49	0.00%	0.00%	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
50	0.00%	0.00%	2.00%	0.00%	0.00%	1.00%	1.50%	2.00%	2.00%
51	0.00%	0.00%	2.00%	0.00%	0.00%	1.00%	1.50%	2.00%	2.00%
52	0.00%	0.00%	2.00%	0.00%	0.00%	1.00%	1.50%	2.00%	2.00%
53	0.00%	0.00%	2.00%	0.00%	0.00%	1.00%	1.50%	2.00%	2.00%
54	0.00%	0.00%	2.00%	0.00%	0.00%	1.00%	1.50%	2.00%	2.00%
55	2.00%	5.50%	15.00%	3.00%	2.00%	3.00%	3.00%	6.00%	6.00%
56	2.00%	5.50%	15.00%	8.00%	2.00%	5.00%	3.00%	20.00%	15.00%
57	2.00%	5.50%	15.00%	15.00%	8.00%	8.00%	7.00%	35.00%	30.00%
58	2.00%	5.50%	15.00%	15.00%	10.00%	10.00%	7.00%	50.00%	35.00%
59	2.00%	5.50%	15.00%	20.00%	15.00%	20.00%	11.00%	50.00%	35.00%
60	12.00%	5.00%	20.00%	15.00%	20.00%	20.00%	16.00%	50.00%	35.00%
61	12.00%	5.00%	20.00%	30.00%	20.00%	25.00%	20.00%	50.00%	35.00%
62	30.00%	15.00%	25.00%	20.00%	25.00%	30.00%	30.00%	40.00%	40.00%
63	30.00%	15.00%	25.00%	30.00%	24.00%	30.00%	30.00%	40.00%	30.00%
64	30.00%	15.00%	25.00%	40.00%	20.00%	30.00%	30.00%	40.00%	35.00%
65	40.00%	15.00%	100.00%	40.00%	30.00%	40.00%	30.00%	50.00%	35.00%
66	40.00%	15.00%	100.00%	40.00%	30.00%	30.00%	30.00%	50.00%	35.00%
67	40.00%	15.00%	100.00%	40.00%	30.00%	30.00%	30.00%	50.00%	30.00%
68	40.00%	15.00%	100.00%	40.00%	30.00%	30.00%	30.00%	50.00%	30.00%
69	40.00%	20.00%	100.00%	40.00%	30.00%	30.00%	30.00%	50.00%	30.00%
70	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Town of Sudbury  
 Analysis of Delayed Retirement to Age 60  
 Based on Results of July 1, 2011 GASB 45 Valuation

Exhibit II

Retirement Assumptions  
 10% of Employees Delay Retirement Until Age 60

Age	Group 1		Group 4 All	Teachers					
	Male	Female		0-19 Years		20-29 Years		30+ Years	
				Male	Female	Male	Female	Male	Female
45	0.00%	0.00%	0.90%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
46	0.00%	0.00%	0.90%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
47	0.00%	0.00%	0.90%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
48	0.00%	0.00%	0.90%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
49	0.00%	0.00%	0.90%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
50	0.00%	0.00%	1.80%	0.00%	0.00%	0.90%	1.35%	1.80%	1.80%
51	0.00%	0.00%	1.80%	0.00%	0.00%	0.90%	1.35%	1.80%	1.80%
52	0.00%	0.00%	1.80%	0.00%	0.00%	0.90%	1.35%	1.80%	1.80%
53	0.00%	0.00%	1.80%	0.00%	0.00%	0.90%	1.35%	1.80%	1.80%
54	0.00%	0.00%	1.80%	0.00%	0.00%	0.90%	1.35%	1.80%	1.80%
55	1.80%	4.95%	13.50%	2.70%	1.80%	2.70%	2.70%	5.40%	5.40%
56	1.80%	4.95%	13.50%	7.20%	1.80%	4.50%	2.70%	18.00%	13.50%
57	1.80%	4.95%	13.50%	13.50%	7.20%	7.20%	6.30%	31.50%	27.00%
58	1.80%	4.95%	13.50%	13.50%	9.00%	9.00%	6.30%	45.00%	31.50%
59	1.80%	4.95%	13.50%	18.00%	13.50%	18.00%	9.90%	45.00%	31.50%
60	12.89%	7.72%	27.81%	20.86%	23.24%	24.49%	19.38%	62.37%	45.76%
61	12.00%	5.00%	20.00%	30.00%	20.00%	25.00%	20.00%	50.00%	35.00%
62	30.00%	15.00%	25.00%	20.00%	25.00%	30.00%	30.00%	40.00%	40.00%
63	30.00%	15.00%	25.00%	30.00%	24.00%	30.00%	30.00%	40.00%	30.00%
64	30.00%	15.00%	25.00%	40.00%	20.00%	30.00%	30.00%	40.00%	35.00%
65	40.00%	15.00%	100.00%	40.00%	30.00%	40.00%	30.00%	50.00%	35.00%
66	40.00%	15.00%	100.00%	40.00%	30.00%	30.00%	30.00%	50.00%	35.00%
67	40.00%	15.00%	100.00%	40.00%	30.00%	30.00%	30.00%	50.00%	30.00%
68	40.00%	15.00%	100.00%	40.00%	30.00%	30.00%	30.00%	50.00%	30.00%
69	40.00%	20.00%	100.00%	40.00%	30.00%	30.00%	30.00%	50.00%	30.00%
70	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Town of Sudbury  
 Analysis of Delayed Retirement to Age 60  
 Based on Results of July 1, 2011 GASB 45 Valuation

Exhibit II

Retirement Assumptions  
 20% of Employees Delay Retirement Until Age 60

Age	Group 1		Group 4 All	Teachers					
	Male	Female		0-19 Years		20-29 Years		30+ Years	
				Male	Female	Male	Female	Male	Female
45	0.00%	0.00%	0.80%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
46	0.00%	0.00%	0.80%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
47	0.00%	0.00%	0.80%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
48	0.00%	0.00%	0.80%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
49	0.00%	0.00%	0.80%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
50	0.00%	0.00%	1.60%	0.00%	0.00%	0.80%	1.20%	1.60%	1.60%
51	0.00%	0.00%	1.60%	0.00%	0.00%	0.80%	1.20%	1.60%	1.60%
52	0.00%	0.00%	1.60%	0.00%	0.00%	0.80%	1.20%	1.60%	1.60%
53	0.00%	0.00%	1.60%	0.00%	0.00%	0.80%	1.20%	1.60%	1.60%
54	0.00%	0.00%	1.60%	0.00%	0.00%	0.80%	1.20%	1.60%	1.60%
55	1.60%	4.40%	12.00%	2.40%	1.60%	2.40%	2.40%	4.80%	4.80%
56	1.60%	4.40%	12.00%	6.40%	1.60%	4.00%	2.40%	16.00%	12.00%
57	1.60%	4.40%	12.00%	12.00%	6.40%	6.40%	5.60%	28.00%	24.00%
58	1.60%	4.40%	12.00%	12.00%	8.00%	8.00%	5.60%	40.00%	28.00%
59	1.60%	4.40%	12.00%	16.00%	12.00%	16.00%	8.80%	40.00%	28.00%
60	13.77%	10.34%	34.76%	26.22%	26.30%	28.67%	22.60%	71.12%	54.40%
61	12.00%	5.00%	20.00%	30.00%	20.00%	25.00%	20.00%	50.00%	35.00%
62	30.00%	15.00%	25.00%	20.00%	25.00%	30.00%	30.00%	40.00%	40.00%
63	30.00%	15.00%	25.00%	30.00%	24.00%	30.00%	30.00%	40.00%	30.00%
64	30.00%	15.00%	25.00%	40.00%	20.00%	30.00%	30.00%	40.00%	35.00%
65	40.00%	15.00%	100.00%	40.00%	30.00%	40.00%	30.00%	50.00%	35.00%
66	40.00%	15.00%	100.00%	40.00%	30.00%	30.00%	30.00%	50.00%	35.00%
67	40.00%	15.00%	100.00%	40.00%	30.00%	30.00%	30.00%	50.00%	30.00%
68	40.00%	15.00%	100.00%	40.00%	30.00%	30.00%	30.00%	50.00%	30.00%
69	40.00%	20.00%	100.00%	40.00%	30.00%	30.00%	30.00%	50.00%	30.00%
70	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%



Town of Sudbury  
 Analysis of Delayed Retirement to Age 60  
 Based on Results of July 1, 2011 GASB 45 Valuation

Exhibit II

Retirement Assumptions  
 50% of Employees Delay Retirement Until Age 60

Age	Group 1		Group 4 All	Teachers					
	Male	Female		0-19 Years		20-29 Years		30+ Years	
				Male	Female	Male	Female	Male	Female
45	0.00%	0.00%	0.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
46	0.00%	0.00%	0.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
47	0.00%	0.00%	0.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
48	0.00%	0.00%	0.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
49	0.00%	0.00%	0.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
50	0.00%	0.00%	1.00%	0.00%	0.00%	0.50%	0.75%	1.00%	1.00%
51	0.00%	0.00%	1.00%	0.00%	0.00%	0.50%	0.75%	1.00%	1.00%
52	0.00%	0.00%	1.00%	0.00%	0.00%	0.50%	0.75%	1.00%	1.00%
53	0.00%	0.00%	1.00%	0.00%	0.00%	0.50%	0.75%	1.00%	1.00%
54	0.00%	0.00%	1.00%	0.00%	0.00%	0.50%	0.75%	1.00%	1.00%
55	1.00%	2.75%	7.50%	1.50%	1.00%	1.50%	1.50%	3.00%	3.00%
56	1.00%	2.75%	7.50%	4.00%	1.00%	2.50%	1.50%	10.00%	7.50%
57	1.00%	2.75%	7.50%	7.50%	4.00%	4.00%	3.50%	17.50%	15.00%
58	1.00%	2.75%	7.50%	7.50%	5.00%	5.00%	3.50%	25.00%	17.50%
59	1.00%	2.75%	7.50%	10.00%	7.50%	10.00%	5.50%	25.00%	17.50%
60	16.36%	17.69%	51.42%	39.79%	34.60%	39.59%	31.40%	85.66%	71.87%
61	12.00%	5.00%	20.00%	30.00%	20.00%	25.00%	20.00%	50.00%	35.00%
62	30.00%	15.00%	25.00%	20.00%	25.00%	30.00%	30.00%	40.00%	40.00%
63	30.00%	15.00%	25.00%	30.00%	24.00%	30.00%	30.00%	40.00%	30.00%
64	30.00%	15.00%	25.00%	40.00%	20.00%	30.00%	30.00%	40.00%	35.00%
65	40.00%	15.00%	100.00%	40.00%	30.00%	40.00%	30.00%	50.00%	35.00%
66	40.00%	15.00%	100.00%	40.00%	30.00%	30.00%	30.00%	50.00%	35.00%
67	40.00%	15.00%	100.00%	40.00%	30.00%	30.00%	30.00%	50.00%	30.00%
68	40.00%	15.00%	100.00%	40.00%	30.00%	30.00%	30.00%	50.00%	30.00%
69	40.00%	20.00%	100.00%	40.00%	30.00%	30.00%	30.00%	50.00%	30.00%
70	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Town of Sudbury  
 New Entrant Fiscal 2012 OPEB Cost by Age, Group and Gender  
 Based on Results of July 1, 2011 GASB 45 Valuation

	<u>General</u>		<u>Public Safety*</u>		<u>Teachers</u>	
	Male	Female	Male	Female	Male	Female
<b>Age</b>						
25	1,400	1,300	6,300	5,800	3,500	2,000
35	1,200	1,100	5,200	4,700	2,700	2,000
45	3,400	3,000	9,200	8,300	6,400	5,600
<b>55</b>	2,300	2,000	4,900	4,500	6,100	5,500

Assumes employee is hired on April 1, 2012.

	<u>General</u>		<u>Public Safety*</u>		<u>Teachers</u>	
	Male	Female	Male	Female	Male	Female
<b>Age</b>						
25	700	500	4,000	3,600	1,500	800
35	900	700	5,200	4,700	1,900	1,500
45	1,600	1,300	9,200	8,300	3,700	3,400
<b>55</b>	2,300	2,000	4,900	4,500	6,100	5,500

Assumes employee is hired on April 2, 2012.

\* Public Safety employees hired at age 55 or later reach full eligibility on their hire date. The OPEB cost is, therefore, the 30-year amortization of the full Accrued Liability at hire date.

