

TOWN OF BEDFORD

**RETIREE MEDICAL ACTUARIAL
VALUATION**

**REPORT ON COMPLIANCE WITH
GOVERNMENT ACCOUNTING STANDARDS BOARD
STATEMENT #45
ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYER
FOR POSTEMPLOYMENT
BENEFITS OTHER THAN PENSIONS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012**

PREPARED: April 2013

00749958

**DANZIGER &
MARKHOFF LLP**
Attorneys at Law

April 2013

Town of Bedford
425 Cherry Street
Bedford Hills, New York 10507

Dear Sir/Madam:

This report was prepared to provide management with the accounting for the Government Accounting Standards Board Statement Number 45 – Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB #45) for the Retiree Health Valuation Under GASB #45 for the fiscal year ended December 31, 2012.

Our results and accompanying disclosures reflect plan provisions in effect for the plan year ended December 31, 2012. The Annual OPEB Cost for the Town for the year is \$3,740,000. The OPEB Obligation at December 31, 2012 is \$10,060,000.

In conducting the valuation, we relied on information supplied to us by the Town of Bedford. This information included participant data, the terms of the written and unwritten plan, premium rates and other policies and practices of plan. We have relied on this information as accurate.

The discount rate used for this year is 4.5%.

To the best of our knowledge and belief, this valuation was conducted in accordance with generally accepted actuarial principles and practices and in accordance with our understanding of GASB #45 and the implementation guidelines published by the Government Accounting Standards Board. The employer may modify the presentation of these disclosures as needed. I am an Enrolled Actuary who satisfies the Qualifications Standards for Actuaries of the AAA that became effective January 1, 2008.

Very truly yours,


Edward A. Echeverria, FSPA, MAAA, CPC, EA
Senior Actuary

TABLE OF CONTENTS

	<u>PAGE</u>
EXECUTIVE SUMMARY OF RESULTS.....	1
RESULTS AND DISCLOSURES.....	2
CONSIDERATIONS.....	7
SUMMARY OF PLAN PROVISIONS.....	9
ACTUARIAL BASIS.....	12

TOWN OF BEDFORD
RETIREE HEALTH VALUATION UNDER GASB #45

EXECUTIVE SUMMARY OF RESULTS

Valuation Date	<u>January 1, 2012</u>
Number of Plan Members:	
Active Participants	122
Retired Participants	<u>94</u>
Total	216
Average Age of Actives	48 yrs.
Average Credited Service of Actives	14 yrs.
Current Covered Payroll	\$ 12,170,000
Market value of assets as of January 1	\$ -0-
Unfunded Accrued Liability	\$ 47,120,000
Annual Required Contribution (ARC)	\$ 3,850,000
OPEB Cost for the Year	\$ 3,740,000

TOWN OF BEDFORD
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES – FYE DECEMBER 31, 2012

Results have been presented rounded to the nearest \$10,000.

<u>VALUATION RESULTS</u> - (Cost to Town)	(EPBO) Projected <u>Benefits</u>	(APBO) Unit Credit Accrued <u>Liability</u>
1. Actuarial present values as of January 1, 2012:		
(a) Actives (122)	\$ 26,030,000	\$ 15,100,000
(b) Retirees & Beneficiaries (94)	\$ <u>32,020,000</u>	\$ <u>32,020,000</u>
(c) Total (216)	\$ 58,050,000	\$ 47,120,000
2. Accrued liability as of January 1, 2012	\$ 47,120,000	
3. Actuarial value of assets, January 1, 2012	\$ -0-	
4. Unfunded accrued liability, January 1, 2012	\$ 47,120,000	
5. Normal cost As of January 1, 2012	\$ 910,000	
6. Amortization of unfunded accrued liability (level dollar basis/open, over 30 years)	\$ 2,770,000	
7. Interest (rounded) on Normal Cost (\$42,038) and Amortization (\$127,962)	\$ 170,000	
8. Annual Required Contribution (ARC) (5 + 6 + 7)	\$ 3,850,000	

TOWN OF BEDFORD
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES

DEVELOPMENT OF THE OPEB COST
FOR THE YEAR ENDING DECEMBER 31, 2012

Actual contribution information is included below.

<u>Contribution rates:</u>	Varies by employee class
Plan Members	(See Summary of Plan Provisions)
Town:	Actuarially determined, equals the balance not paid by plan members
Annual required contribution (ARC)	\$ 3,850,000
Interest on net OPEB obligation	330,000
Adjustment to annual required contribution (-)	440,000
Annual OPEB cost	\$ 3,740,000
Contributions made*	\$ 1,150,000
Increase in net OPEB obligation	\$ 2,590,000
Net OPEB obligation-beginning of year	\$ <u>7,470,000</u>
Net OPEB obligation-end of year	\$ <u>10,060,000</u>

*Contributions made include retiree medical premiums payments and Medicare Part B premium payments of approximately \$1,090,000 and Medicare Part D reimbursement of approximately \$60,000.

TOWN OF BEDFORD
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES

DEVELOPMENT OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
AND FUNDED RATIO (actual)

Actuarial accrued liability (a)	\$ 47,120,000
Actuarial value of plan assets (b)	\$ 0
Unfunded actuarial accrued liability (a - b)	\$ 47,120,000
Funded ratio (b / a)	0.0%
Covered payroll (c)	\$ 12,170,000
Unfunded actuarial accrued liability as percentage of covered payroll [(a - b) / c]	387%

TOWN OF BEDFORD
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES

DEVELOPMENT OF OPEB COST AND OPEB OBLIGATION
FOR THE LAST THREE YEARS (actual)

<u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	Percentage of <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
12/31/2010	\$3,170,000	28.7%	\$5,260,000
12/31/2011	\$3,280,000	32.6%	\$7,470,000
12/31/2012	\$3,740,000	30.7%	\$10,060,000

TOWN OF BEDFORD
RETIREE HEALTH VALUATION UNDER GASB #45

RESULTS AND DISCLOSURES

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS (actual)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a) / c]
1/1/2010	\$0	\$39.09M	\$39.09M	0.0%	\$12.01M	325%
1/1/2011	\$0	\$40.55M	\$40.55M	0.0%	\$12.08M	336%
1/1/2012	\$0	\$47.12M	\$47.12M	0.0%	\$12.17M	387%

TOWN OF BEDFORD
RETIREE HEALTH VALUATION UNDER GASB #45

CONSIDERATIONS

NEW STATEMENT

Government Accounting Standards Board Statement No. 45 (GASB #45) was first applicable to the Town of Bedford for the fiscal year ended December 31, 2008. GASB #45 establishes standards for the measurement, recognition and display of the expense and liabilities of your retiree medical program (Other Post-Employment Benefits; "OPEB"). As a result, reporting of expense and liabilities will no longer be done under the "pay-as-you-go" approach. Instead of expensing the current year premiums paid, a per capita claims cost will be determined, which will be used to determine a "normal cost", an "actuarial accrued liability", and ultimately the Annual Required Contribution (ARC). The ARC is not "required" to be contributed each year, but in your case, will accumulate as a liability on the Town's financial statements (called the "OPEB obligation") to the extent that the ARC exceeds the amount of premiums paid in a year. If and when New York State municipalities are permitted to pre-fund retiree medical and other OPEB benefits in a Trust, the Town will have the option of doing so to reduce/eliminate the accumulated liability. In addition, pre-funding also permits the use of a higher discount rate (to reflect higher returns from an equity/bond mix of a Trust, rather than short term returns of the municipality's funds).

PLAN DESIGN

We received detailed employee and dependent data, information on the plans, past and current employer practices, and medical premium cost data.

TOWN OF BEDFORD
RETIREE HEALTH VALUATION UNDER GASB #45

CONSIDERATIONS

For 2012, there are 94 retirees plus dependents who are receiving employer subsidized benefits. We reflected known retirements and terminations in our database through December 31, 2011. Where data was missing or inaccurate, we assumed reasonable estimates. In all, we valued 122 active employees plus dependents.

Retiree medical coverage is provided primarily through NYSHIP (State Empire).

Future retirees are assumed to be covered by this existing arrangement as outlined in the materials forwarded by the Town. Those provisions, as they relate to employer liability, can be found in the Summary of Plan Provisions section of this report.

ASSUMPTIONS/RECOGNITION

To establish the per capita claims cost for your group, we used current premium rates provided by the Town as the starting point for our calculations. We then employed a health care trend rate that begins at 9.5% for the first year, decreases by 0.5% per year for 9 years to 5%, and then continues at 5% thereafter. This assumption needs to be reviewed periodically. The health care trend rate is a major contributor to widening the gap between pay-as-you-go recognition and GASB #45 recognition. Due to the Community-Rated Exemption of ASOP 6, adjustments were not required to be made to recognize differences between the average age of the 'full' population and the average age of a 'retiree only' population (to develop age adjusted current premium rates).

TOWN OF BEDFORD
RETIREE HEALTH VALUATION UNDER GASB #45

SUMMARY OF PLAN PROVISIONS

The following is a summary of the current major provisions of the retiree medical program.

1. BENEFITS

The Plan is a fully insured plan. Current retiree premium rates provided to us by the Town include:

- | | |
|----------------------------|------------------------------|
| a) Individual Pre-age 65: | Generally \$713 per month. |
| b) Family Pre-age 65: | Generally \$1,563 per month. |
| c) Individual Post-age 65: | Generally \$419 per month. |
| d) Family Post-age 65: | Generally \$976 per month. |

For GASB #45 purposes, the plan is deemed "community-rated". Therefore, adjustments to the premium rates to reflect the difference between the pre-age 65 active/retiree group (for which the current premium rates were based on) and the pre-age 65 retiree group, were not required, due to the "community-rated" exception under ASOP 6.

TOWN OF BEDFORD
RETIREE HEALTH VALUATION UNDER GASB #45

SUMMARY OF PLAN PROVISIONS

2. **ELIGIBILITY:**

- a) Non-uniformed employees:
An employee must retire after age 55 with at least 25 years of service.
- b) Police Officers/Fire Fighters:
An employee must retire with at least 20 years of service (no age requirement).
- c) Spousal benefit upon retiree's death:
Coverage continued; spouse pays full current premium rate.
- d) Active service death benefit: N/A
- e) Active service disability benefit: N/A

3. **TOWN SUBSIDY:**

The Town will contribute 100% of the NYSHIP/State Empire premium amounts.

4. **MEDICARE PART B PREMIUMS:**

Paid by the Town, generally at \$99.90/mo.

TOWN OF BEDFORD
RETIREE HEALTH VALUATION UNDER GASB #45

SUMMARY OF PLAN PROVISIONS

5. **FUNDING POLICY:**

The employer's funding policy is to contribute the current annual premium (net of employee contributions) for all retired participants (i.e., pay-as-you-go). Current New York State law prohibits municipalities from pre-funding retiree medical benefit obligations in a Trust, although pre-funding moneys can arguably be "set aside" on the municipality's balance sheet.

Medicare Part D reimbursement is also considered an "employer contribution" for GASB #45 purposes.

TOWN OF BEDFORD
RETIREE HEALTH VALUATION UNDER GASB #45

ACTUARIAL BASIS

ACTUARIAL FUNDING METHOD: Projected Unit Credit

ACTUARIAL ASSUMPTIONS

- | | |
|--------------------|---|
| 1. Valuation Date: | January 1, 2012 |
| 2. Discount Rate: | 4.5% per annum. |
| 3. Salary Scale: | Not applicable. |
| 4. Mortality: | RP-2000 Mortality Table
(projected 27 & 19 years). |
| 5. Withdrawal: | Sarasson T-5 Table. |
| 6. Disability: | N/A |

TOWN OF BEDFORD
RETIREE HEALTH VALUATION UNDER GASB #45

ACTUARIAL BASIS

7. Retirement:

The following table illustrates the retirement rates:

A) Non-Uniformed
 (25 years of service required)

<u>Retirement Age</u>	<u>Retirement Rates</u>
55	10.0%
56	3.0%
57	3.0%
58	3.0%
59	3.0%
60	5.0%
61	5.0%
62	5.0%
63	5.0%
64	5.0%
65	100.0%

B) Police
 (20 years of service required)

<u>Retirement Age (Svc)</u>	<u>Retirement Rates</u>
(20 th year of service)	50.0%
(21 st year, to age 54)	2.0%
55	10.0%
56	3.0%
57	3.0%
58	3.0%
59	3.0%
60	5.0%
61	5.0%
62	5.0%
63	5.0%
64	5.0%
65	100.0%

TOWN OF BEDFORD
RETIREE HEALTH VALUATION UNDER GASB #45

ACTUARIAL BASIS

8. Health Care Cost
Trend Rate:

The following table illustrates the assumed health care trend rate for each future year:

<u>Year</u>	<u>Assumed Increase</u>
1	9.5%
2	9.0%
3	8.5%
4	8.0%
5	7.5%
6	7.0%
7	6.5%
8	6.0%
9	5.5%
10+	5.0%

9. Marital - Actives:

Wife is assumed to be same age as the husband.
70% males/50% females are assumed married.

10. Participation Rate:

100% of eligible retirees expected to participate.

ASSET VALUATION METHOD: Market value.

AMORTIZATION BASIS: Level dollar basis/open; over 30 years.