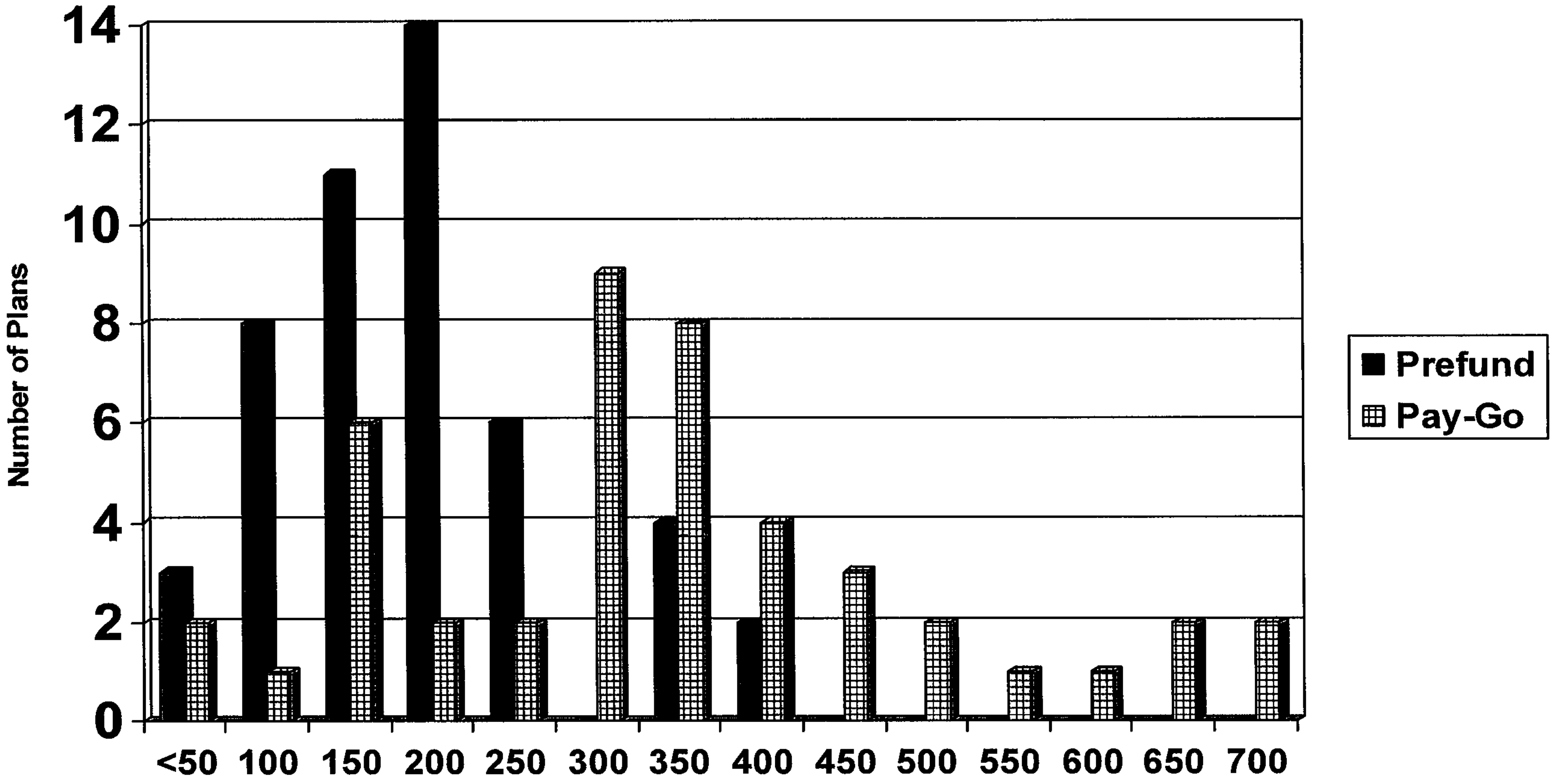
EXECUTIVE SUMMARY of the ACTUARIAL REPORT on The TOWN of FOXBOROUGH'S RETIREE HEALTH BENEFITS OBLIGATIONS

- The Actuarial Report regarding the accrued liability for retiree health benefits obligations of the Town of Foxborough was prepared by Daniel Sherman, an actuary with Buck Consultants of Boston, and has been reviewed and accepted by the Town's Audit Committee.
- This actuarial analysis is now a requirement of the Governmental Accounting Standards Board (GASB) that all government entities must complete, and have updated every two years, and then disclose in their financial statements so that the statements reflect this liability referred to as Other Post Employment Benefits (OPEB).
- This liability is not unique to Foxborough, it is one that all cities, towns and states have.
- The actuarial valuation date is as of June 30, 2009.
- The actuarial accrued liability (AAL), based on current pay-as-you-go funding, is $62.2MM, amortized over 30 years.
  - This represents the estimated future cost to the Town for retiree health benefits, including all current active employees and all current retirees, if the Town continues to only pay the current year cost, and does not pre-fund any future costs.
  - The split of this liability within the Town is $43.53MM School, $17.02MM Town, $1.64MM Water & Sewer
  - In FY '09 the Town's pay-as-you-go *cost* for retiree health costs was $1.1MM
- If the Town were to adopt a full pre-funding approach to this liability, the AAL would be $30.6MM, amortized over 30 years.
  - This would require incremental funding amounts in FY '09 of $1.58MM, in FY '10 of $1.65MM, in FY '11 of $1.73MM. These amounts continue to grow annually over the 30 year funding period to $5.67MM in FY '38.
- Since the Town did not pre-fund this liability in FY '09, a Net OPEB Obligation (NOO) liability of $4.0MM will be booked on the FY '09 financial statements to reflect the first year's amortization of the <u>Unfunded</u> Actuarial Liability (UAL), which currently equals 100% of the AAL on the financial statements
  - A similar, and growing, amount will have to be added to this liability, on the financial statements, annually if the Town does not pre-fund this liability.
  - The effect of this growing liability will be to reduce the Town's Net Asset position.
- Although the Town's UAL compares very favorably to other cities and towns, according to Mr. Sherman, the liability is real, large and should be managed prudently so as to not jeopardize the Town's excellent credit rating or its financial stability.
  - The common benchmark used to compare the size of one town's UAL to another is the ratio of the UAL divided by the Annual Covered Payroll.
  - The Town's ratio is 104.8% on a full pre-funded basis, 212.7% on a pay-as-you-go basis.
  - Mr. Sherman has found the norm to be about 161% and 313%, respectively.
  - Foxborough's favorable ratio is attributed to the less costly attributes of the health plan, including the share of premium split and the mandatory Medicare enrollment at age 65.
- The Audit Committee has several suggestions for the Board of Selectmen to consider, in the attached documented titled "Health Plan Offering Strategies," that are focused on reducing the UAL.

Buck Boston GASB 45 Actuarial Valuations
Unfunded Liability as a Percentage of Payroll



Prefund: 48 plans, Average = 161%

Pay-go: 45 plans, Average = 313%

As of 1/1/2010

buckconsultants
an ACS company

HEALTH PLAN OFFERING STRATEGIES - Discussion Document
Town of Foxborough

Cost Saving & Funding Strategies IN PLACE TODAY:

	Gross Monthly Premium	Town Share	Employee Share	# of Plan Participants	Active Plan Retiree Breakout
1) BCBS Blue Choice Plan - Family:	1,641.96	**70%**	**30%**	78	5
BCBS Blue Choice Plan - Individual:	696.31	**70%**	**30%**	49	14
Harvard Pilgrim Plan - Family:	1,518.08	**70%**	**30%**	190	15
Harvard Pilgrim Plan - Individual:	587.14	**70%**	**30%**	140	21
BCBS Master Medical Plan - Family:	3,118.76	**50%**	**50%**	-	-
BCBS Master Medical Plan - Individual:	1,320.36	**50%**	**50%**	9	6
Medex Retiree Plan:	501.60	**50%**	**50%**	188	NA
				654	61

2) Mandatory Medicare Enrollment: Chapter 32B Sec. 18 Adopted by Town requiring Medicare Part B (Medical) Enrollment at age 65 if retired. This then requires the retiree to take the Medex plan from the Town, which is less expensive for the Town.

3) 100% Survivor Share upon Retiree Death: Upon a covered retiree's death, the survivor maintains coverage, but at 100% cost of the premium.

4) Retiree Drug Subsidies from the Federal Govt. are Voted into Health Trust Annually at Town Meeting. $203.5K to date, an estimated $100K in FY '10.

Cost Saving & Funding Strategies TO CONSIDER:

1) Increase Co-Pays *(typically $5)* & Deductibles *(typically $0)* from very low amounts to a level that is more common.
   - Subject to Collective Bargaining
2) Adopt a policy that puts all retirees on equal footing by having a 50% cost share for all retirees regardless of age. Avg. monthly impact = ~$200.
   - Board of Selectmen Policy Decision
3) Remove the "qualifying event" trigger for a retiree to elect coverage, which currently leaves the liability of retiree coverage election as open ended.
   - Board of Selectmen Policy Decision
4) Have a Family Subscriber audit conducted to determine ineligible dependents.
   - Board of Selectmen Policy Decision
5) During the rebidding of the health plans, explore the addition of another health plan with higher co-pays and deductibles and lower premiums.
   - Board of Selectmen Policy Decision
6) Establish a Qualified OPEB Trust at the next Town Meeting in order to have a vehicle through which a higher return could be earned. This Qualified Trust will also allow the Town to reduce its reported liability by the amount of any funds deposited into it.
   - Town Meeting Vote
7) Establish a prefunding approach for the unfunded actuarial liability.
   a) Incorporate an amount into the annual fixed costs budget, stick with it and grow it annually
   b) Utilize one-time funds in the Unfunded Pension Liability and Workers Compensation funds to allow a $1.26MM contribution (see separate doc.)
   - Town Meeting Vote
8) Continue to work with the Insurance Advisory Committee to pursue additional ideas to reduce the Town's OPEB liability. If the liability can not be reduced to a manageable level, then, due to the limited resources of the Town, it will become difficult to maintain current service levels to the community.
   - Insurance Advisory Committee

POSSIBLE <u>ONE-TIME</u> FUNDING SOURCE for the UNFUNDED OPEB ACTUARIAL LIABILITY

EXECUTIVE SUMMARY:
$1,264,978, *plus a few months of additional interest*, is recommended to be used to enable an initial pair of contributions, totaling this same amount, into a qualified trust dedicated to help fund retiree health benefits. The recommended sources of these funds are the entire balances within the Unfunded Pension Liability Fund *(~$673K balance)* and the Worker's Compensation Fund *($592K balance)*. These two funds are special purpose funds that have outlived their intended purposes. This would be a one-time opportunity, not to be repeated.

BACKGROUND:

<u>UNFUNDED PENSION LIABILITY FUND (UPLF)</u>

- Funds were transferred into an Unfunded Pension Liability account from the General Fund Pension appropriation over the course of a few years from 1988 to 1993.
- In 1993 the Norfolk County Pension System *(NCPS is the pension system non-educator pensions are managed through)* adopted an unfunded pension liability schedule and the member towns, including Foxborough, have been funding this liability via the annual assessments from NCPS ever since.
- This was the reason why Foxborough voted to adopt Chapter 32 Sect. 22D "Retirement System Funding Schedule; Establishment..." at the May 10, 1993, Annual Town Meeting.
- Once the annual assessments from NCPS started to include the UPL, there was no need to continue to fund the locally created UPLF.
- This account stayed intact all these years with interest accruing on the balance. The account balance today is ~$673K.

<u>WORKER'S COMPENSATION FUND (WCF)</u>

- At the September 25, 1996, Special Town Meeting, Foxborough voted to adopt Chapter 40 Sect. 13A "Workers' compensation insurance funds; management".
- As a result the WCF was created. Funds were transferred into this account from the General Fund Worker's Comp appropriation over the course of a couple of years.
- Shortly after creating this fund, the Town moved to a premium based risk management approach *(i.e., the Town bought a WC policy through MIIA due to their very reasonable rates)* and has managed this risk through an insurance policy with MIIA ever since.
- Therefore, there was no need to continue to fund the locally created WCF.
- This account stayed intact all these years with interest accruing on the balance. The account balance today is ~$592K.

CURRENT SITUATION:

- When I, Randy, joined the Town 5 1/2 years ago, Andy & I discussed these accounts and how they might be best utilized by the Town.
- At the same time, the Unfunded Other Employee Benefits Liability *(OPEB, otherwise referred to as the GASB45 issue)* was becoming a hot topic for government.
- So Andy & I agreed at the time that these funds should ultimately be proposed to be contributed to the OPEB liability when the timing was right.
- Timing is right, right now, as we just completed the first OPEB actuarial study and the unfunded liability is $62.2MM.
- Although these funds were initially created to manage large employee benefits liabilities, those are now being addressed more efficiently. However the Town now has another very large unfunded employee benefits liability to address. Again, all of these liabilities are employee benefits related.
- So first off, it is recommended that we create an OPEB Qualified Trust at the next ATM.
- At the same ATM we would like to, in effect, propose to vote the entire balances out of these respective funds into the OPEB Qualified Trust, as the Town's first down payment, albeit meager compared to the size of the liability *(although likely the biggest contribution we'll be able to make in any given year)*.
- Of course, we sought and received Audit Committee endorsement and now seek Board of Selectmen endorsement.
- Town Counsel has endorsed the legality of following approach.

MECHANICS of MOVING FUNDS to QUALIFIED TRUST:

UPLF:

- Reduce the $2.2MM FY '11 General Fund Pension budget by ~$673K
- Fund the ~$673K for the FY '11 pension assessment from the UPLF, bringing this fund balance to zero
- Use ~$673K from FY '11 General Fund revenues to fund the Unfunded Actuarial Liability (UAL) in FY '11 at the May, 2010 ATM

WCF:

- Rescind the Chapter 40 Sect. 13A Workers' Comp statute at the May, 2010 ATM
- As a result, the ~$592K balance in this fund will "drop out" to General Fund revenue and will be certified in FY '11 as Free Cash
- At the May, 2010 ATM, vote ~$592K in FY '10 Free Cash into the newly created OPEB Qualified Trust *(this Free Cash will be replenished by the same amount that "dropped out" to General Fund revenue due to the statute being rescinded)*