

Town of Wellesley

Actuarial Valuation and Review of Other
Postemployment Benefits (OPEB) as of
June 30, 2012 in accordance with GASB
Statements No. 43 and No. 45

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★ SEGAL



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January 10, 2013

*Mr. Marc V. Waldman
Treasurer/Collector
525 Washington Street
Town Hall
Wellesley, MA 02482*


Dear Marc:

We are pleased to submit this report on our actuarial valuation of postemployment welfare benefits as of June 30, 2012 under Governmental Accounting Standards Board Statements Number 43 and 45. It establishes the liabilities of the postemployment welfare benefit plan in accordance with GASB Statements Number 43 and 45 for the fiscal year beginning July 1, 2012 and summarizes the actuarial data.


This report is based on information received from the Town. The actuarial projections were based on the assumptions and methods described in Exhibit II and on the plan of benefits as summarized in Exhibit III.

*We look forward to discussing this with you at your convenience.
Sincerely,*

THE SEGAL COMPANY

By: 
Kathleen A. Riley, FSA, MAAA, EA
Senior Vice President and Actuary

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Daniel J. Rhodes, ASA, FCA, MAAA
Consulting Actuary

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SECTION 1: Executive Summary for Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

PURPOSE

This report presents the results of our actuarial valuation of the Town of Wellesley (the "Employer") postemployment welfare benefit plan as of June 30, 2012. The results are in accordance with the Governmental Accounting Standards, which prescribe an accrual methodology for accumulating the value of other postemployment benefits (OPEB) over participants' active working lifetimes. The accounting standard supplements cash accounting, under which the expense for postemployment benefits is equal to benefit and administrative costs paid on behalf of retirees and their dependents (*i.e.*, a pay-as-you-go basis).

HIGHLIGHTS OF THE VALUATION

During the fiscal year ending June 30, 2013, we project the Town will pay benefits (net of retiree contributions) on behalf of retired employees of about \$6,766,000. This amount is less than the annual "cost" (the "Annual Required Contribution," or ARC) of approximately \$9,306,000.

Because the Town of Wellesley is funding the ARC, we have used a 7.50% investment return assumption to discount the liability.

Assets set aside to fund OPEB liabilities must be held in a trust or equivalent arrangement, through which assets are accumulated and benefits are paid as they come due. Employer contributions to the plan are irrevocable, plan assets are dedicated to providing benefits to retirees and their spouses in accordance with the terms of the plan, and plan assets are legally protected from creditors of the employer. As of June 30, 2012, the OPEB trust accounts totaled \$21,313,571.

Chapter 68 of the Acts of 2011 permits municipalities, authorities and certain other government entities of the Commonwealth to establish a liability trust fund for funding retiree benefits (other than pension), also known as Other Post-Employment Benefits (OPEB). The legislation also ensures that these entities have access to the state's investment trust, the State Retiree Benefits Trust Fund (SRBTF) for purposes of investment OPEB funds.

GASB guidelines prohibit the offset of OPEB obligations by the future value of Medicare Part D subsidies. Therefore, these calculations do not include an estimate for retiree prescription drug plan federal subsidies that the Employer may be eligible to receive for plan years beginning in 2006.

Employer decisions regarding plan design, cost sharing between the Employer and its retirees, actuarial cost method, amortization techniques, and integration with Medicare are just some of the decisions that affect the magnitude of OPEB obligations. We are available to assist you with any investigation of such options you may wish to undertake.

This valuation does not include the potential impact of any future changes due to the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act (HCERA) of 2010 other than those previously adopted as of the valuation date.

SECTION 1: Executive Summary for Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

KEY VALUATION RESULTS

➤ The **unfunded actuarial accrued liability (UAAL)** as of June 30, 2012 is \$106,298,000. Going forward, net unfunded plan obligations will be expected to change due to normal plan operations, which consist of continuing accruals for active members, plus interest on the total actuarial accrued liability, less expected benefit payments and contributions. Future valuations will analyze the difference between actual and expected unfunded actuarial accrued liabilities.

○ As of June 30, 2012 the ratio of assets to the AAL (the funded ratio) is 16.70%.

➤ The **Annual Required Contribution (ARC)** for fiscal year 2013 is \$9,306,000. The ARC is expected to remain relatively level as a percentage of payroll, as long as the ARC is fully funded each year. If the ARC is not fully funded, it may be expected to increase as a percentage of payroll over time.

The unfunded liability of \$106,298,000 as of June 30, 2012 represents a decrease of \$7,811,000 from \$114,109,000 as shown in the June 30, 2010 valuation.

The unfunded liability had been expected to increase \$3,462,000 due to normal plan operations, which consist of continuing accruals for active members, plus interest on the total obligation, less expected employer contributions. The decrease was the net effect of the following:

➤ An **actuarial experience gain** decreased obligations by \$3,559,000. This was the net result of gains and losses due to demographic changes and investment gains.

➤ **Valuation assumption and plan changes** decreased obligations by \$7,714,000. This was the net result of a decrease in obligations due to 1) valuation year per capita health costs not increasing as much as projected, partially offset by increases in obligations due to 2) a change in the non-Medicare and Medicare enrollment assumption for current and future retirees, and 3) changes in the mortality assumption for healthy lives. The complete set of assumptions is shown in Exhibit II.

FUNDING SCHEDULES

Following the Summary of the Valuation Results are Funding Schedules for the Town, Municipal Light Plant and Water and Sewer departments that project the additional funding requirements needed to fully fund these obligations. The funding requirements are based on a 25-year amortization of the unfunded liability for the Town and Water and Sewer Departments and a 10-year amortization for the Municipal Light Plant. We have also included an additional funding schedule for the Municipal Light Plant which shows the impact of an additional \$1,000,000 contribution for fiscal year 2013.

SECTION 1: Executive Summary for Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

ACCOUNTING REQUIREMENTS

The Governmental Accounting Standards Board (GASB) issued Statement Number 43 -- *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement Number 45 -- *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Under these statements, all state and local governmental entities that provide other post employment benefits (OPEB) are required to report the cost of these benefits on their financial statements.

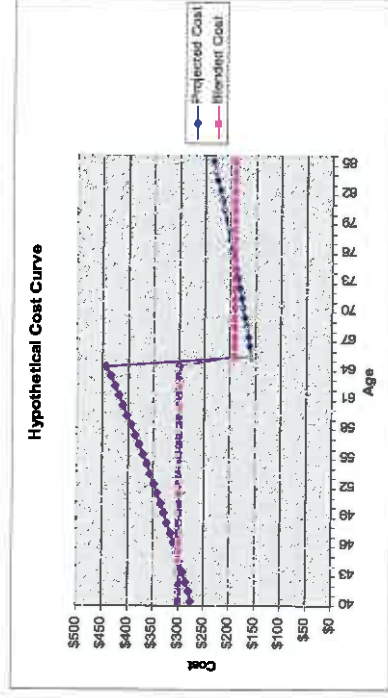
The statements cover postemployment benefits of health, prescription drug, dental, vision and life insurance coverage for retirees; long-term care coverage, life insurance and death benefits that are *not* offered as part of a pension plan; and long-term disability insurance for employees. These benefits, referred to as OPEB, are typically financed on a pay-as-you-go basis. The new standard introduces an accrual-basis accounting requirement; thereby recognizing the employer cost of postemployment benefits over an employee's career. The standards also introduce a consistent accounting requirement for both pension and non-pension benefits.

The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions. This amount is then discounted to determine the actuarial present value of the total projected benefits (APB). The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the Plan.

Once the UAAL is determined, the Annual Required Contribution (ARC) is determined as the normal cost (the APB allocated to the current year of service) and the amortization of the UAAL. This ARC is compared to actual contributions made and any difference is reported as the net OPEB obligation (NOO). In addition, required supplementary information (RSI) must be reported, including historical information about the UAAL and the progress in funding the Plan.

The benefits valued in this report are limited to those described in Exhibit III of Section 4.

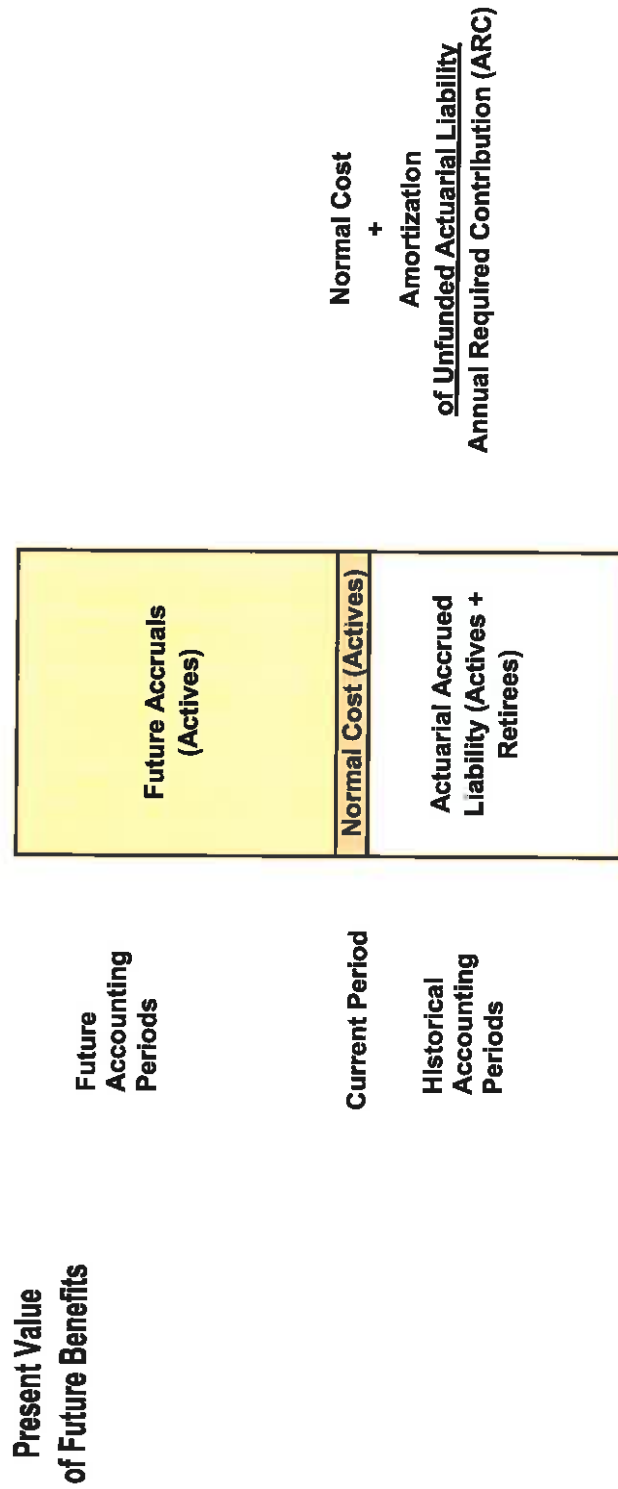
The following graph illustrates why a significant accounting obligation may exist even though the retiree contributes most or all of the blended premium cost of the plan. The average cost for retirees is likely to exceed the average cost for the whole group, leading to an implicit subsidy for these retirees. The accounting standard requires the employer to identify and account for this implicit subsidy as well as any explicit subsidies the employer may provide.



SECTION 1: Executive Summary for Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

This graph shows how the actuarial present value of the total projected benefits (APB) is broken down and allocated to various accounting periods. The exact breakdown depends on the actuarial cost method and amortization methods selected by the employer.

GASB 43/45 Measurement



$$\text{Net OPEB Obligation} = \text{ARC}_1 + \text{ARC}_2 + \text{ARC}_3 + \dots - \text{Contribution}_1 - \text{Contribution}_2 - \text{Contribution}_3 - \dots$$

SECTION 1: Executive Summary for Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

Actuarial computations under GASB statements are for purposes of fulfilling certain welfare plan accounting requirements. The calculations shown in this report have been made on a basis consistent with our understanding of GASB. Determinations for purposes other than meeting the financial accounting requirements of GASB may differ significantly from the results reported here.

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of the valuation and on the pattern of sharing costs between the employer and plan members. The projection of benefits does not incorporate the potential effect of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Actuarial calculations reflect a long-term perspective, and the methods and assumptions use techniques designed to reduce short term volatility in accrued liabilities and the actuarial value of assets, if any.

The calculation of an accounting obligation does not, in and of itself, imply that there is any legal liability to provide the benefits valued, nor is there any implication that the Employer is required to implement a funding policy to satisfy the projected expense.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

SECTION 2: Valuation Results for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

**SUMMARY OF VALUATION RESULTS
ALL DEPARTMENTS**

The key results for the current year are shown on a funded basis and a pay-as-you-go basis.

	7.50% interest rate
Actuarial Accrued Liability by Participant Category	
1. Current retirees, beneficiaries and dependents	\$74,733,756
2. Current active members	52,878,186
3. Total as of June 30, 2012: (1) + (2)	\$127,611,942
4. Market value of assets as of June 30, 2012	21,313,571
5. Unfunded actuarial accrued liability (UAAL) as of June 30, 2012: (3) - (4)	\$106,298,371
Annual Required Contribution for Fiscal Year Ending June 30, 2013	
6. Normal cost as of June 30, 2012	\$2,575,539
7. Adjustment for timing	94,837
8. Normal cost adjusted for timing: (6) + (7)	\$2,670,376
9. 25-year amortization (10-year for MLP) (increasing 4% per year) of the unfunded actuarial accrued liability (UAAL) as of June 30, 2012	6,399,585
10. Adjustment for timing	235,646
11. Amortization payment adjusted for timing: (9) + (10)	\$6,635,231
12. Total Annual Required Contribution (ARC): (8) + (11)	9,305,607
13. Projected benefit payments	6,765,601

Note: Adjustment for timing assumes payment in the middle of the fiscal year.

SECTION 2: Valuation Results for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

FUNDING SCHEDULE – ALL OTHER

25 Years Closed (7.50% interest rate, payments increasing at 4.0%)

Fiscal Year Ended June 30	(1) Projected Benefit Payments	(2) Normal Cost with Interest	(3) Amortization of UAAL	(4) Total Funding Requirement	(5) Additional Funding (4) - (1)	(6) Assets at End of Year	(7) AAL at End of Year	(8) UAAL at End of Year (7) - (6)
2013	\$6,342,563	\$2,494,601	\$5,933,678	\$8,428,279	\$3,000,000	\$23,426,671	\$122,684,048	\$99,257,378
2014	6,732,396	2,619,331	6,112,649	8,731,980	1,999,584	27,256,884	127,620,836	100,363,952
2015	7,198,977	2,750,298	6,357,155	9,107,453	1,908,476	31,279,900	132,579,910	101,300,010
2016	7,626,427	2,887,813	6,611,441	9,499,254	1,872,827	35,567,681	137,610,304	102,042,622
2017	8,039,242	3,032,204	6,875,899	9,908,102	1,868,860	40,172,933	142,739,669	102,566,735
2018	8,394,074	3,183,814	7,150,935	10,334,748	1,940,674	45,198,037	148,043,031	102,844,994
2019	8,834,158	3,343,004	7,436,972	10,779,977	1,945,819	50,605,358	153,452,909	102,847,551
2020	9,094,217	3,510,155	7,734,451	11,244,606	2,150,389	56,630,330	159,172,198	102,541,868
2021	9,453,443	3,685,662	8,043,829	11,729,491	2,276,048	63,237,462	165,129,951	101,892,489
2022	9,797,178	3,869,945	8,365,582	12,235,528	2,438,350	70,508,406	171,369,211	100,860,805
2023	10,163,010	4,063,443	8,700,206	12,763,648	2,600,638	78,492,936	177,897,736	99,404,800
2024	10,671,161	4,266,615	9,048,214	13,314,829	2,643,668	87,120,920	184,599,692	97,478,773
2025	11,204,719	4,479,946	9,410,142	13,890,088	2,685,369	96,439,239	191,472,276	95,033,038
2026	11,764,954	4,703,943	9,786,548	14,490,491	2,725,536	106,498,078	198,511,685	92,013,606
2027	12,353,202	4,939,140	10,178,010	15,117,150	2,763,948	117,351,156	205,712,998	88,361,842
2028	12,970,862	5,186,097	10,585,130	15,771,227	2,800,365	129,055,973	213,070,056	84,014,083
2029	13,619,405	5,445,402	11,008,536	16,453,937	2,834,532	141,674,077	220,575,323	78,901,247
2030	14,300,376	5,717,672	11,448,877	17,166,549	2,866,173	155,271,344	228,219,736	72,948,392
2031	15,015,394	6,003,556	11,906,832	17,910,388	2,894,993	169,918,288	235,992,543	66,074,255
2032	15,766,164	6,303,733	12,383,105	18,686,839	2,920,675	185,690,379	243,881,127	58,190,748
2033	16,554,472	6,618,920	12,878,430	19,497,350	2,942,877	202,668,397	251,870,811	49,202,414
2034	17,382,196	6,949,866	13,393,567	20,343,433	2,961,237	220,938,803	259,944,652	39,005,849
2035	18,251,306	7,297,359	13,929,309	21,226,669	2,975,363	240,594,135	268,083,208	27,489,073
2036	19,163,871	7,662,227	14,486,482	22,148,709	2,984,838	261,733,441	276,264,290	14,530,849
2037	20,122,065	8,045,339	15,065,941	23,111,280	2,989,215	284,462,733	284,462,733	-

Note: Assumes payment in the middle of the fiscal year.
2013 additional funding amount is actual contribution made.

SECTION 2: Valuation Results for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

FUNDING SCHEDULE – WATER AND SEWER

25 Years Closed (7.50% interest rate, payments increasing at 4.0%)

Fiscal Year Ended June 30	(1) Projected Benefit Payments	(2) Normal Cost with Interest	(3) Amortization of UAAL	(4) Total Funding Requirement	(5) Additional Funding (4) - (1)	(6) Assets at End of Year	(7) AAL at End of Year	(8) UAAL at End of Year (7) - (6)
2013	\$117,033	\$90,224	\$180,732	\$270,956	\$105,690	\$683,006	\$3,785,137	\$3,102,131
2014	129,424	94,735	191,041	285,776	156,352	896,341	4,033,056	3,136,715
2015	140,572	99,472	198,683	298,154	157,582	1,126,951	4,292,921	3,165,970
2016	150,251	104,445	206,630	311,075	160,824	1,378,219	4,567,398	3,189,179
2017	166,590	109,668	214,895	324,563	157,973	1,645,375	4,850,934	3,205,560
2018	174,693	115,151	223,491	338,642	163,949	1,938,764	5,153,020	3,214,256
2019	194,196	120,909	232,431	353,339	159,143	2,249,174	5,463,511	3,214,336
2020	214,924	126,954	241,728	368,682	153,758	2,577,282	5,782,065	3,204,783
2021	248,581	133,302	251,397	384,699	136,118	2,911,707	6,096,195	3,184,488
2022	289,721	139,967	261,453	401,420	111,699	3,245,897	6,398,141	3,152,244
2023	304,207	146,965	271,911	418,876	114,669	3,608,231	6,714,970	3,106,739
2024	319,417	154,313	282,787	437,101	117,683	4,000,864	7,047,409	3,046,545
2025	335,388	162,029	294,099	456,128	120,740	4,426,115	7,396,222	2,970,107
2026	352,158	170,130	305,863	475,993	123,836	4,886,469	7,762,209	2,875,740
2027	369,766	178,637	318,097	496,734	126,969	5,384,598	8,146,208	2,761,610
2028	388,254	187,569	330,821	518,390	130,136	5,923,371	8,549,099	2,625,728
2029	407,667	196,947	344,054	541,001	133,335	6,505,868	8,971,803	2,465,935
2030	428,050	206,795	357,816	564,611	136,561	7,135,397	9,415,286	2,279,888
2031	449,452	217,134	372,129	589,263	139,811	7,815,511	9,880,560	2,065,049
2032	471,925	227,991	387,014	615,005	143,080	8,550,023	10,368,686	1,818,663
2033	495,521	239,391	402,495	641,885	146,364	9,343,028	10,880,775	1,537,747
2034	520,297	251,360	418,594	669,954	149,657	10,198,923	11,417,994	1,219,070
2035	546,312	263,928	435,338	699,266	152,954	11,122,429	11,981,561	859,152
2036	573,628	277,125	452,752	729,876	156,248	12,118,613	12,572,757	454,144
2037	602,309	290,981	470,862	761,842	159,533	13,192,916	13,192,916	-

Note: Assumes payment in the middle of the fiscal year.
2013 additional funding amount is actual contribution made.

SECTION 2: Valuation Results for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

FUNDING SCHEDULE – MUNICIPAL LIGHT PLANT

10 Years Closed (7.50% interest rate, payments increasing at 4.0%)

Fiscal Year Ended June 30	(1) Projected Benefit Payments	(2) Normal Cost Amortization with Interest	(3) UAAL	(4) Total Funding Requirement	(5) Additional Funding (4) - (1)	(6) Assets at End of Year	(7) AAL at End of Year	(8) UAAL at End of Year (7) - (6)
2013	\$306,005	\$85,551	\$520,821	\$606,372	\$319,901	\$2,354,141	\$6,467,633	\$4,113,492
2014	323,434	89,829	538,999	628,828	305,394	2,847,340	6,710,498	3,863,158
2015	353,362	94,320	560,559	654,879	301,517	3,373,510	6,945,205	3,571,695
2016	377,107	99,036	582,981	682,017	304,910	3,942,661	7,177,785	3,235,124
2017	399,113	103,988	606,301	710,288	311,175	4,560,994	7,410,127	2,849,133
2018	430,245	109,187	630,553	739,740	309,495	5,223,960	7,633,006	2,409,047
2019	433,602	114,647	655,775	770,421	336,819	5,964,978	7,874,782	1,909,804
2020	445,131	120,379	682,006	802,385	357,254	6,782,760	8,128,680	1,345,920
2021	476,229	126,398	709,286	835,684	359,455	7,664,158	8,375,619	711,461
2022	484,413	132,718	737,657	870,375	385,962	8,639,143	8,639,143	-

*Note: Assumes payment in the middle of the fiscal year.
2013 additional funding amount is actual contribution made.*

SECTION 2: Valuation Results for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

FUNDING SCHEDULE – MUNICIPAL LIGHT PLANT

Additional \$1,000,000 contribution in Fiscal Year 2013

10 Years Closed (7.50% interest rate, payments increasing at 4.0%)

Fiscal Year Ended June 30	(1) Projected Benefit Payments	(2) Normal Cost with Interest	(3) Amortization of UAAL	(4) Total Funding Requirement	(5) Additional Funding (4) - (1)	(6) Assets at End of Year	(7) AAAL at End of Year	(8) UAAL at End of Year (7) - (6)
2013	\$306,005	\$85,551	\$520,821	\$606,372	\$1,319,901	\$3,390,963	\$6,467,633	\$3,076,670
2014	323,434	89,829	403,142	492,971	169,537	3,821,064	6,710,498	2,889,434
2015	353,362	94,320	419,268	513,588	160,226	4,273,770	6,945,205	2,671,435
2016	377,107	99,036	436,038	535,074	157,967	4,758,086	7,177,785	2,419,699
2017	399,113	103,988	453,480	557,468	158,355	5,279,128	7,410,127	2,130,998
2018	430,245	109,187	471,619	580,806	150,561	5,831,168	7,633,006	1,801,838
2019	433,602	114,647	490,484	605,130	171,528	6,446,351	7,874,782	1,428,431
2020	445,131	120,379	510,103	630,482	185,351	7,122,003	8,128,680	1,006,677
2021	476,229	126,398	530,507	656,905	180,676	7,843,482	8,375,619	532,136
2022	484,413	132,718	551,728	684,445	200,032	8,639,141	8,639,141	-

*Note: Assumes payment in the middle of the fiscal year.
2013 additional funding amount is actual contribution made plus \$1,000,000.*

SECTION 2: Valuation Results for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

DEPARTMENT RESULTS

Actuarial Accrued Liability (AAL) and Annual Required Contribution – 7.50% Interest Rate

Actuarial Accrued Liability by Participant Category	Municipal				Water and Sewer	Total
	All Other	Light Department	School Non-Teacher	Teacher		
1. Current retirees, beneficiaries and dependents	\$28,270,983	\$3,179,698	\$8,394,299	\$34,005,273	\$883,502	\$74,733,756
2. Current active members	20,414,216	3,049,329	8,732,511	18,018,718	2,663,412	52,878,186
3. Total as of June 30, 2012: (1) + (2)	\$48,685,199	\$6,229,027	\$17,126,810	\$52,023,991	\$3,546,915	\$127,611,942
4. Market value of assets as of June 30, 2012	7,808,982	1,881,358	2,745,995	8,343,818	533,418	21,313,571
5. Unfunded actuarial accrued liability (UAAL) as of June 30, 2012: (3) – (4)	\$40,876,217	\$4,347,669	\$14,380,815	\$43,680,173	\$3,013,497	\$106,298,371

Annual Required Contribution for Fiscal Year Ending June 30, 2013

6. Normal cost as of June 30, 2012	\$726,307	\$82,513	\$488,227	\$1,191,474	\$87,020	\$2,575,539
7. Adjustment for timing	26,744	3,038	17,978	43,873	3,204	94,837
8. Normal cost adjusted for timing: (6) + (7)	\$753,051	\$85,551	\$506,204	\$1,235,346	\$90,224	\$2,670,376
9. 25-year amortization (10-year for MLP) (increasing 4% per year) of the unfunded actuarial accrued liability (UAAL) as of June 30, 2012	2,364,454	502,324	831,847	2,526,647	174,313	6,399,585
10. Adjustment for timing	87,064	18,497	30,630	93,036	6,419	235,646
11. Amortization payment adjusted for timing: (9) + (10)	\$2,451,518	\$520,821	\$862,477	\$2,619,683	\$180,732	\$6,635,231
12. Total Annual Required Contribution (ARC): (8) + (11)	3,204,569	606,372	1,368,681	3,855,029	270,956	9,305,607
13. Projected benefit payments	2,489,135	306,005	847,324	3,006,104	117,033	6,765,601

Note: Adjustment for timing assumes payment in the middle of the fiscal year.

SECTION 2: Valuation Results for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

January 10, 2013

ACTUARIAL CERTIFICATION

This is to certify that The Segal Company has conducted an actuarial valuation of certain benefit obligations of the Town of Wellesley other postemployment benefit programs as of June 30, 2012, in accordance with generally accepted actuarial principles and practices. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of GASB Statements Number 43 and 45 for the determination of the liability for postemployment benefits other than pensions.

The actuarial valuation is based on the plan of benefits verified by the Town and on participant and premium data provided by the Town or from vendors employed by the Town.

The actuarial computations made are for purposes of fulfilling plan accounting requirements. Determinations for purposes other than meeting financial accounting requirements may be significantly different from the results reported here. Accordingly, additional determinations may be needed for other purposes, such as judging benefit security at termination or adequacy of funding an ongoing plan.

To the best of our knowledge, this report is complete and accurate and in our opinion presents the information necessary to comply with GASB Statements Number 43 and 45 with respect to the benefit obligations addressed. The signing actuaries are members of the Society of Actuaries, the American Academy of Actuaries, and other professional actuarial organizations and collectively meet their "General Qualification Standards for Statements of Actuarial Opinion" to render the actuarial opinion contained herein. Further, in our opinion, the assumptions as approved by the Town are reasonably related to the experience and expectations of the postemployment benefit programs.



Kathleen A. Riley, FSA, MAAA, EA
Senior Vice President and Actuary



Howard Atkinson, Jr., ASA, MAAA, FCA
Vice President and Health Actuary

SECTION 3: Valuation Details for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

**CHART 1
Required Supplementary Information – Schedule of Employer Contributions**

Fiscal Year Ended June 30,	Annual OPEB Costs	Actual Contributions	Percentage Contributed
2007	--	\$848,562	N/A
2008	\$7,794,493	7,524,218	96.53%
2009	8,159,418	10,491,432	128.58%
2010	8,506,559	9,519,441	111.91%
2011	9,127,366	9,478,438	103.85%
2012	9,636,485	10,162,826	105.46%
2013	8,772,184	10,191,192	116.18%
2014	8,912,987	--	--

Note: 2013 and 2014 information assumes there will be no plan changes that need to be reflected.

SECTION 3: Valuation Details for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

This schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**CHART 2
Required Supplementary Information – Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
6/30/2008	\$3,961,548	\$109,103,295	\$105,141,747	3.63%	\$61,221,013	171.74%
6/30/2010	11,133,131	125,242,206	114,109,075	8.89%	65,958,262	173.00%
6/30/2012	21,313,571	127,611,942	106,298,371	16.70%	80,220,910	132.51%

SECTION 3: Valuation Details for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

**CHART 3
Required Supplementary Information – Net OPEB Obligation/(Asset) (NOO/NOA)**

Fiscal Year Ended June 30,	Annual Required Contribution (a)	Interest on Existing NOO (b)	ARC Adjustment (c)	Annual OPEB Cost (a) + (b) + (c) (d)	Actual Contribution Amount (e)	Net Increase in NOO (d) - (e) (f)	NOO as of Following Date (g)
2007	N/A	N/A	N/A	N/A	N/A	N/A	\$0
2008	\$7,794,493	\$0	\$0	\$7,794,493	\$7,524,218	\$270,275	270,275
2009	8,159,418	0	0	8,159,418	10,491,432	(2,332,014)	(2,061,739)
2010	8,506,559	0	0	8,506,559	9,519,441	(1,012,882)	(3,074,621)
2011	9,182,304	(230,597)	175,659	9,127,366	9,478,438	(351,072)	(3,425,693)
2012	9,764,460	(256,927)	128,952	9,636,485	10,162,826	(526,341)	(3,952,034)
2013	9,305,607	(296,403)	(237,020)	8,772,184	10,191,192	(1,419,008)	(5,371,042)
2014	9,646,584	(402,828)	(330,769)	8,912,987	--	--	--

Note: 2013 and 2014 information assumes there will be no plan changes that need to be reflected.

SECTION 3: Valuation Details for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

**CHART 4
Summary of Required Supplementary Information**

Valuation date	June 30, 2012
Actuarial cost method	Projected Unit Credit
Amortization method	Payments increasing at 4%
Remaining amortization period	25 years as of July 1, 2012, closed (10 years as of July 1, 2012, closed for the Municipal Light Plant)
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.50%
Inflation rate	4.00%
Medical/drug cost trend rate	8.0% decreasing by 0.50% for 6 years to an ultimate level of 5.0% per year
Plan membership:	
Current retirees, beneficiaries, and dependents*	912
Current active participants	<u>903</u>
Total	1,815

* Includes 35 retirees with life insurance only

SECTION 4: Supporting Information for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

This exhibit summarizes the participant data used for the current and prior valuations.

**EXHIBIT I
Summary of Participant Data**

	June 30, 2012	June 30, 2010
Active employees covered for medical benefits		
Number of employees		
Male	372	370
Female	<u>531</u>	553
Total	903	923
Average age	44.8	44.7
Average service	10.5	10.3
Retired employees, spouses and beneficiaries covered for medical benefits		
Number of individuals	877	866
Average age	73.3	73.1
Retired employees with life insurance coverage		
Number of individuals*	332	361
Average age	74.0	75.9

** Includes 35 and 37 retirees with life insurance only as of June 30, 2012 and June 30, 2010, respectively.*

SECTION 4: Supporting Information for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

**EXHIBIT II
Actuarial Assumptions and Actuarial Cost Method**

Data:	Detailed census data, premium rates, and summary plan descriptions for postemployment welfare benefits were provided by the Town of Wellesley.
Actuarial Cost Method:	Projected Unit Credit
Per Capita Cost Development:	Per capita costs were based on the fully-insured premium rates effective July 1, 2012 (January 1, 2012 for Medicare plans). Premiums were combined by taking a weighted average based on the number of participants in each plan, and were then trended to the midpoint of the valuation year at assumed trend rates. For plans that are not community rated, actuarial factors were applied to the premium to estimate individual retiree and spouse costs by age and by gender.
Measurement Date:	June 30, 2012
Discount Rate:	7.5%
Mortality Rates:	
<i>Pre-Retirement (Non-Teachers)</i>	RP-2000 Healthy Employee Mortality Table projected 12 years with Scale AA (previously, RP-2000 Healthy Employee Mortality Table projected 10 years with Scale AA)
<i>Healthy (Non-Teachers)</i>	RP-2000 RP-2000 Health Annuitant Mortality Table projected 12 years with Scale AA (previously, RP-2000 Healthy Annuitant Mortality Table projected 10 years with Scale AA)
<i>Disabled (Non-Teachers)</i>	RP-2000 Healthy Annuitant Mortality Table set forward 3 years for males
<i>Pre-Retirement (Teachers)</i>	RP-2000 Healthy Employee Mortality Table projected 10 years with Scale AA
<i>Healthy (Teachers)</i>	RP-2000 Healthy Annuitant Mortality Table projected 10 years with Scale AA
<i>Disabled (Teachers)</i>	RP-2000 Healthy Annuitant Mortality Table set forward 3 years for males

SECTION 4: Supporting Information for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

These mortality tables were determined to contain provision appropriate to reasonably reflect future mortality improvement, based on a review of the mortality experience of the non-Teachers.

Termination Rates before Retirement: Groups 1 and 2 (excluding Teachers) - Rate per year (%)

Age	Mortality						Disability
	Current		Previously		Female	Male	
	Male	Female	Male	Female			
20	0.03	0.02	0.03	0.02	0.02	0.01	
25	0.03	0.02	0.03	0.02	0.02	0.02	
30	0.04	0.02	0.04	0.02	0.02	0.03	
35	0.07	0.04	0.07	0.04	0.04	0.06	
40	0.10	0.06	0.10	0.06	0.06	0.20	
45	0.13	0.09	0.13	0.10	0.10	0.29	
50	0.17	0.14	0.18	0.14	0.14	0.58	
55	0.24	0.23	0.25	0.23	0.23	0.71	
60	0.40	0.37	0.42	0.37	0.37	0.84	

Notes: 55% of the rates shown represent accidental disability and death.

SECTION 4: Supporting Information for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

Group 4 - Rate per year (%)

Age	Mortality				Disability
	Current		Previously		
	Male	Female	Male	Female	
20	0.03	0.02	0.03	0.02	0.10
25	0.03	0.02	0.03	0.02	0.20
30	0.04	0.02	0.04	0.02	0.30
35	0.07	0.04	0.07	0.04	0.30
40	0.10	0.06	0.10	0.06	0.60
45	0.13	0.09	0.13	0.10	2.00
50	0.17	0.14	0.18	0.14	3.75
55	0.24	0.23	0.25	0.23	3.60
60	0.40	0.37	0.42	0.37	2.55

Note: 90% of the rates shown represent accidental disability and death.

Teachers - Rate per year (%)

Age	Mortality		Disability
	Mortality		
	Male	Female	
20	0.03	0.02	0.00
25	0.03	0.02	0.01
30	0.04	0.02	0.01
35	0.07	0.04	0.01
40	0.10	0.06	0.01
45	0.13	0.10	0.03
50	0.18	0.14	0.05
55	0.25	0.23	0.08
60	0.42	0.37	0.10

*Notes: 35% of the disability rates shown represent accidental disability.
55% of the death rates shown represent accidental death.*

SECTION 4: Supporting Information for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

Withdrawal Rates:

Years of Service	Rate per year (%)		
	Groups 1 and 2	Years of Service 0-10	Group 4
0	15.0	0-10	1.5
1	12.0	11+	0.0
2	10.0		
3	9.0		
4	8.0		
5	7.6		
6	7.5		
7	6.7		
8	6.3		
9	5.9		
10	5.4		
11	5.0		
12	4.6		
13	4.1		
14	3.7		
15	3.3		
16-20	2.0		
21-29	1.0		
30+	0.0		

SECTION 4: Supporting Information for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

Teachers – Rate per year (%)

Age	0 Years of Service		5 Years of Service		10+ Years of Service	
	Male	Female	Male	Female	Male	Female
20	12.0	10.0	4.5	9.0	1.0	5.0
30	11.4	12.0	4.5	9.0	1.0	5.0
40	9.7	11.0	5.4	6.5	1.7	2.9
50	10.0	8.2	4.8	4.2	2.2	2.1

SECTION 4: Supporting Information for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

Retirement Rates:

Age	Rate (%)			
	Groups 1 and 2		Group 4	
	Male	Female	Male	Female
50	1.0	1.5	2.0	2.0
51	1.0	1.5	2.0	2.0
52	1.0	2.0	5.0	5.0
53	1.0	2.5	7.5	7.5
54	2.0	2.5	15.0	15.0
55	2.0	5.5	10.0	10.0
56	2.5	6.5	15.0	15.0
57	2.5	6.5	20.0	20.0
58	5.0	6.5	20.0	20.0
59	6.5	6.5	25.0	25.0
60	12.0	5.0	25.0	25.0
61	20.0	13.0	30.0	30.0
62	30.0	15.0	40.0	40.0
63	25.0	12.5	25.0	25.0
64	22.0	18.0	20.0	20.0
65	40.0	15.0	100.0	100.0
66	25.0	20.0	100.0	100.0
67	25.0	20.0	100.0	100.0
68	30.0	25.0	100.0	100.0
69	30.0	20.0	100.0	100.0
70	100.0	100.0	100.0	100.0

SECTION 4: Supporting Information for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

Age	Teachers					
	Rate per year (%)					
	Less than 20		20 - 29		30 or more	
	Male	Female	Male	Female	Male	Female
50 - 53	--	--	1.0	1.5	2.0	2.0
54	--	--	1.0	1.5	2.0	2.0
55	3.0	2.0	3.0	3.0	6.0	6.0
56	8.0	2.0	5.0	3.0	20.0	15.0
57	15.0	8.0	8.0	7.0	35.0	30.0
58	15.0	10.0	10.0	7.0	50.0	35.0
59	20.0	15.0	20.0	11.0	50.0	35.0
60	15.0	20.0	20.0	16.0	50.0	35.0
61	30.0	20.0	25.0	20.0	50.0	35.0
62	20.0	25.0	30.0	30.0	40.0	40.0
63	30.0	24.0	30.0	30.0	40.0	30.0
64	40.0	20.0	30.0	30.0	40.0	35.0
65	40.0	30.0	40.0	40.0	50.0	35.0
66	40.0	30.0	30.0	30.0	50.0	35.0
67	40.0	30.0	30.0	30.0	50.0	35.0
68	40.0	30.0	30.0	30.0	50.0	30.0
69	40.0	30.0	30.0	30.0	50.0	30.0
70	100.0	100.0	100.0	100.0	100.0	100.0

Dependents:

Demographic data was available for spouses of current retirees. For future retirees, husbands were assumed to be three years older than their wives. For future retirees who elect to continue their health coverage at retirement, 65% were assumed to have an eligible spouse who also opts for health coverage at that time.

SECTION 4: Supporting Information for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

Per Capita Health Costs: Fiscal 2012 – 2013 medical and prescription drug claims costs are shown in the table below for retirees and for spouses at selected ages. These costs are net of deductibles and other benefit plan cost sharing provisions.

Age	Non-Medicare Rate Saver Plans				Non-Medicare Legacy Plans				Medicare Plans			
	Retiree		Spouse		Retiree		Spouse		Retiree		Spouse	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
45	\$7,082	\$8,884	\$4,393	\$6,631	\$9,223	\$11,569	\$5,721	\$8,636	N/A	N/A	N/A	N/A
50	8,405	9,574	5,871	7,687	10,946	12,468	7,646	10,011	N/A	N/A	N/A	N/A
55	9,982	10,306	7,856	8,898	13,000	13,421	10,231	11,588	N/A	N/A	N/A	N/A
60	11,855	11,108	10,517	10,320	15,438	14,466	13,696	13,440	N/A	N/A	N/A	N/A
65	14,079	11,967	14,079	11,967	18,335	15,585	18,335	15,585	\$4,641	\$3,945	\$4,641	\$3,945
70	16,318	12,896	16,318	12,896	21,250	16,795	21,250	16,795	5,379	4,251	5,379	4,251
75	17,585	13,882	17,585	13,882	22,900	18,078	22,900	18,078	5,797	4,576	5,797	4,576
80	18,936	14,966	18,936	14,966	24,661	19,490	24,661	19,490	6,242	4,933	6,242	4,933

Medicare Advantage Plans: \$2,865
Annual Medicare Part B Reimbursement: \$599

SECTION 4: Supporting Information for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

Plan Design: Development of plan liabilities was based on the substantive plan of benefits in effect as described in Exhibit III.

Administrative Expenses: Administrative expenses are assumed to be included in the fully insured premium rates.

Annual Maximum Benefits: No increase in the annual maximum benefit levels was assumed.

Lifetime Maximum Benefits: No information was available regarding accumulations toward lifetime maximum benefits and no such accumulations were assumed.

Health Care Reform Assumption: This valuation does not include the potential impact of any future changes due to the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act (HCERA) of 2010 other than those previously adopted as of the valuation date.

Assumption Changes

since Prior Valuation:

The per capita health costs were updated to reflect current experience.

The non-Medicare and Medicare enrollment assumption for current and future retirees was changed to reflect current enrollment.

The mortality tables for non-Teachers were revised to reflect current experience and a margin for mortality improvement.

SECTION 4: Supporting Information for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

EXHIBIT III

Summary of Plan

This exhibit summarizes the major benefit provisions as included in the valuation. To the best of our knowledge, the summary represents the substantive plans as of the measurement date. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions.

Eligibility:

Retired and receiving a pension from the Town of Wellesley Contributory Retirement System or Massachusetts State Teachers Retirement System.

Group 1 and Group 2 (including Teachers):

- Retirees with at least 10 years of creditable service are eligible at age 55;
- Retirees with at least 20 years of creditable service are eligible at any age.

Group 4:

- Retirees are eligible at age 55;
- Retirees with at least 20 years of creditable service are eligible at any age.

Disability: Accidental (job-related) Disability has no age or service requirement. Ordinary (non-job related) Disability has no age requirement but requires 10 years of creditable service.

Pre-Retirement Death: Surviving spouses of members who die in active service on Accidental (job-related) Death are eligible at any age. Surviving spouses of members who die in active service on Ordinary (non-job related) Death are eligible after two years of service.

Post-Retirement Death: Surviving spouse is eligible.

Benefit Types:

The Town of Wellesley participates in the West Suburban Health Group. Medical and prescription drug benefits are provided to all eligible retirees through a variety of plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim Health Care, Tufts Health Plan, and Fallon Community Health Plan. The Town of Wellesley also pays 50% of the retiree life insurance premium and 50% of the Medicare Part B premium.

SECTION 4: Supporting Information for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

Duration of Coverage: Lifetime.
Dependent Benefits: Medical and Prescription Drugs.
Dependent Coverage: Benefits are payable to a spouse for their lifetime, regardless of when the retiree dies.
M.G.L. Chapter 32B, Section 18: Adopted.
Retiree Contributions: Premium rates and retiree contributions as of July 1, 2012 are summarized on the following pages:

SECTION 4: Supporting Information for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

	Subscribers		Retirees 65 and over	Monthly Premium (eff. 7/1/2012)	Town cost	Retiree cost	Retiree Cost %	Surviving Spouse Cost %
	Active	Retiree						
<u>Non-Medicare Actives and Retirees</u>								
HPHC HMO Rate Saver								
Individual	241	16	257	\$586.00	\$482.28	\$103.72	17.7%	50.0%
Family	335	19	354	\$1,529.00	\$316.50	\$316.50	20.7%	50.0%
Tufts HMO Rate Saver								
Individual	74	5	79	\$620.00	\$494.76	\$125.24	20.2%	50.0%
Family	139	3	142	\$1,623.00	\$376.53	\$376.53	23.2%	50.0%
Network Blue NE Rate Saver								
Individual	49	3	52	\$603.00	\$501.70	\$101.30	16.8%	50.0%
Family	36	3	39	\$1,620.00	\$1,249.02	\$370.98	22.9%	50.0%
Fallon Select Care Rate Saver								
Individual	0	0	0	\$521.00	\$423.06	\$97.94	18.8%	50.0%
Family	18	0	18	\$1,404.00	\$1,086.70	\$317.30	22.6%	50.0%
Fallon Direct Care Rate Saver								
Individual	0	0	0	\$485.00	\$393.82	\$91.18	18.8%	50.0%
Family	9	0	9	\$1,305.00	\$1,010.07	\$294.93	22.6%	50.0%
HPHC PPO								
Individual	2	4	6	\$1,562.00	\$781.00	\$781.00	50.0%	50.0%
Family	0	1	1	\$3,469.00	\$1,734.50	\$1,734.50	50.0%	50.0%
HPHC HMO Legacy								
Individual	0	47	47	\$751.00	\$618.08	\$132.92	17.7%	50.0%
Family	0	28	28	\$1,963.00	\$1,556.66	\$406.34	20.7%	50.0%
Tufts HMO Legacy								
Individual	0	32	32	\$827.00	\$659.95	\$167.05	20.2%	50.0%
Family	0	15	15	\$2,169.00	\$1,665.80	\$503.20	23.2%	50.0%
Network Blue NE Legacy								
Individual	0	31	31	\$839.00	\$698.05	\$140.95	16.8%	50.0%
Family	0	8	8	\$2,251.00	\$1,735.53	\$515.47	22.9%	50.0%
Fallon Select Care Legacy								
Individual	0	0	0	\$613.00	\$497.76	\$115.24	18.8%	50.0%
Family	0	0	0	\$1,651.00	\$1,277.88	\$373.12	22.6%	50.0%
Fallon Direct Care Legacy								
Individual	0	0	0	\$568.00	\$461.22	\$106.78	18.8%	50.0%
Family	0	0	0	\$1,535.00	\$1,188.09	\$346.91	22.6%	50.0%
<u>Non-Medicare Total</u>	903	215	1118					107

SECTION 4: Supporting Information for the Town of Wellesley June 30, 2012 Measurement Under GASB 43 and 45

	Subscribers		Monthly Premium (eff. 1/1/2012)	Town cost	Retiree cost	Retiree Cost %	Surviving Spouse Cost %
	Active	Retiree Total					
<u>Medicare Supplement Plans</u>							
BCBS Medex	N/A	153	\$424.00	\$261.95	\$162.05	38.2%	38.2%
HPHC Medicare Enhance	N/A	59	\$378.00	\$238.95	\$139.05	36.8%	36.8%
BCBS Managed Blue for Seniors	N/A	8	\$402.00	\$250.95	\$151.05	37.6%	37.6%
Tufts Medicare Plus	N/A	41	\$317.00	\$208.45	\$108.55	34.2%	34.2%
<u>Medicare Advantage Plans</u>							
Tufts Medicare Preferred	N/A	75	\$226.00	\$162.95	\$63.05	27.9%	27.9%
Fallon Senior	N/A	3	\$267.00	\$183.45	\$83.55	31.3%	31.3%
<u>Medicare Total</u>	339	339					
<u>Retiree Total**</u>		554					

* 107 of 446 over-65 retirees are in a non-Medicare plan.

** In addition, there are 323 spouses of retirees covered under an individual or family policy.

Retiree Life: \$5,000

Plan Changes

Since the Prior Valuation: Changes in Medicare retiree contributions are reflected in this valuation.

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