



**TOWN OF COLCHESTER
OTHER POST-EMPLOYMENT BENEFITS PROGRAM**

JULY 1, 2011 VALUATION

**TOWN OF COLCHESTER
OTHER POST-EMPLOYMENT BENEFITS PROGRAM**

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TOWN OF COLCHESTER
OTHER POST-EMPLOYMENT BENEFITS PROGRAM

CERTIFICATION

We have performed an actuarial valuation of the Town of Colchester Other Post-Employment Benefits Program as of July 1, 2011. The results of this valuation, along with supporting data, are set forth in the following report.

Milliman has prepared this report in compliance with Government Accounting Standard No. 45. No attempt is being made to offer any accounting opinion or advice. The calculations reported herein have been made on a basis consistent with our understanding of the plan provisions. Additional determinations may be needed for purposes other than meeting accounting requirements.

In preparing this report, we relied on employee census data and claims and premium information as of the valuation date, furnished by the Town of Colchester. We performed a limited review of the information used directly in our analysis for reasonableness and consistency and have found them to be reasonably consistent and comparable with data used for other purposes. If the information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete and our calculations may need to be revised. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge, this report is complete and accurate, all costs and liabilities were determined in conformance with generally accepted actuarial principles and practices, and the methods and assumptions produced results which are reasonable. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

The actuarial method and assumptions used in this valuation are discussed on pages 17-21 of this report. A summary of the plan provisions starts on page 22 of this report.

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CERTIFICATION

Milliman's work is prepared solely for the internal business use of the Town of Colchester. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exception(s):

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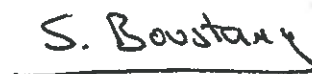
The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

MILLIMAN INC.

November 16, 2011



Steve A. Lemanski, FSA, FCA
Consulting Actuary



Samuel Boustani, ASA
Actuary

TOWN OF COLCHESTER
OTHER POST-EMPLOYMENT BENEFITS PROGRAM

OVERVIEW OF GASB 43 AND GASB 45

GASB 43 requires OPEB plans to disclose information about asset and liability levels and show historical contribution information. GASB 43 only applies in situations where a separate trust is established to prefund these benefits. GASB 45 requires employers to perform periodic actuarial valuations to determine annual accounting costs, and to keep a running tally of the extent to which these amounts are over or under funded. GASB 43 was effective starting in FY 2006-07 for a Phase I government, FY 2007-08 for a Phase II government, and FY 2008-09 for a Phase III government. GASB 45 was effective for the fiscal year following implementation of GASB 43.

GASB 43 and 45 apply to just about any benefit that is provided after retirement except for pension benefits: medical insurance, dental, vision, and hearing benefits plus life insurance and long term care insurance. The benefits provided by the Town to retirees include medical and dental insurance. The philosophy driving the accounting standard is that these post-employment benefits are part of the compensation that is paid to employees in return for their services, and the cost of these benefits should be recognized while the employees are providing those services, rather than after they have retired. This philosophy has already been applied for years to defined benefit pensions; GASB 43 and 45 extend the same thinking to all other post-employment benefits.

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THE VALUATION PROCESS

The process of determining the liability for OPEB benefits is based on many assumptions about future events. The key actuarial assumptions are:

Turnover and retirement rates: How likely is it that an employee will qualify for post-employment benefits and when will they start?

Medical inflation and claims costs assumptions: When an employee starts receiving post-employment benefits many years from now, how much will be paid each year for the benefits and how rapidly will the costs grow?

Mortality assumption: How long is a retiree likely to receive the benefits?

Discount rate assumption: What is the present value of those future benefit payments in terms of today's dollars?

Since the liability is being recognized over the employee's whole career with the Town, the present value is divided into three pieces: the part that is attributed to past years (the "Accrued Liability" or "Past Service Liability"), the part that is being earned this year (the "Normal Cost"), and the part that will be earned in future years (the "Future Service Liability").

Once the Accrued Liability and the Normal Cost have been calculated, the next step is to determine an annual contribution. This consists of two pieces:

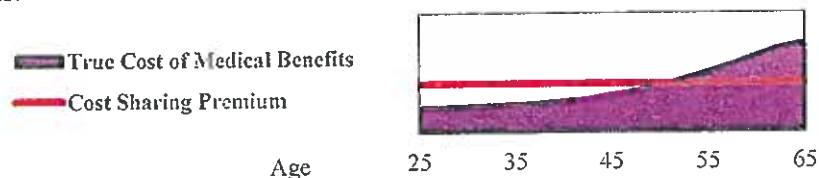
- Normal Cost – because the benefits earned each year should be paid for each year
- Past Service Cost – a catch-up payment to fund the Accrued Liability over time

TOWN OF COLCHESTER OTHER POST-EMPLOYMENT BENEFITS PROGRAM

IMPLICIT RATE SUBSIDIES

As part of the Other Post-Employment Benefits Program, there are situations where the cost is borne partly or entirely by retirees. In most cases, the premium that is used to split the cost is lower than the true cost of providing the medical benefits, for two reasons:

- The cost sharing premium is usually a fixed amount such as a COBRA premium that does not take into account the age of the retiree and his/her dependents. Since medical costs generally increase with age, the cost sharing premium is often lower than the true cost of the medical benefits:



- The cost sharing premium is usually a blended rate that takes into account the cost of medical benefits for active employees as well as retirees. Medical costs are generally higher for retirees than for active employees of the same age. This means that, again, the cost sharing premium is often lower than the true cost of the medical benefits.

Because of these two factors, a retiree who is paying 100% of the cost sharing premium is most likely not paying 100% of the true cost of the medical benefits. This situation is known as an "implicit rate subsidy". GASB 43 and 45 require the plan sponsor to measure the liability for this subsidy; that is, the difference between the true cost of the medical benefits and the cost sharing premiums paid by the retiree. To do this, our valuation consists of several steps:

First, we calculate the liability for the true cost of medical benefits expected to be received by retirees and their dependents. This liability is based on factors developed by Milliman's health actuaries that reflect how the cost of medical benefits varies by age and gender, as well as the other assumptions discussed on the prior page. We term this amount the "gross liability".

Next, we calculate the liability for the future premiums expected to be paid by the retiree for their own and their dependents' coverage. This liability is based on the current premium rates without adjustment for age or gender. It also is based on the terms of the retiree medical program – different retirees pay different percentages based on their union, date of retirement, age at retirement, and other factors. We term this amount the "offset liability".

Finally, the net liability for the Town is calculated as the difference between the gross liability and the offset liability.

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DISCUSSION OF EXPERIENCE

This valuation reflects a number of changes relative to the June 30, 2009 valuation:

Demographic Changes from 2009 to 2011

From June 30, 2009 to July 1, 2011, the overall membership decreased from 454 to 437. The number of active members decreased from 426 to 409 and the number of retirees and spouses of retirees remain constant at 28.

The average age of active members increased from 47.1 to 48.6, and the average age of retired members decreased from 63.4 to 58.7.

Assumption Changes

Medical and dental age curves: We updated the age curves with respect to expected claims costs, based on our analysis of the updated claims experience and premium information provided to us for this valuation.

The effect of the above change was to reduce the Accrued Liability by about \$280,000 and the Annual Required Contribution by about \$30,000.

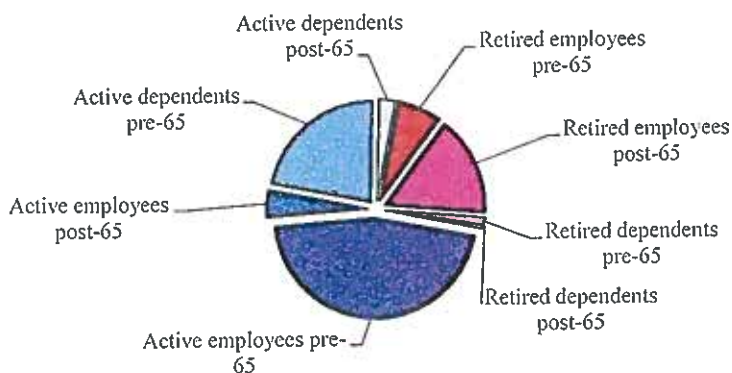
TOWN OF COLCHESTER

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SUMMARY OF LIABILITIES AS OF JULY 1, 2011

We have calculated the Accrued Liability separately for four groups of Town employees, who are eligible for different OPEB benefits. We have broken the accrued liability for each group into several pieces: benefits that are expected to be paid prior to age 65 (i.e. prior to Medicare) and after age 65 (i.e. after Medicare) to current active members and their covered dependents after retirement, and the same figures for members who have already retired and are currently receiving benefits. In all cases, the Accrued Liability only reflects benefits that are paid for by the Town, taking into account any implicit rate subsidies.

| | Police & Fire | Town | BOE Certified | BOE Non- Certified | Total |
|--------------------------------|---------------|----------------|------------------|-----------------------|------------------|
| Current active members | | | | | |
| Employees under age 65 | \$45,000 | \$152,000 | \$1,694,000 | \$34,000 | \$1,925,000 |
| Employees over age 65 | 0 | 0 | 183,000 | 0 | 183,000 |
| Dependents under age 65 | 18,000 | 77,000 | 831,000 | 11,000 | 937,000 |
| Dependents over age 65 | <u>0</u> | <u>0</u> | <u>107,000</u> | <u>0</u> | <u>107,000</u> |
| Total | 63,000 | 229,000 | 2,815,000 | 45,000 | 3,152,000 |
| Current retired members | | | | | |
| Employees under age 65 | 0 | 0 | 308,000 | 0 | 308,000 |
| Employees over age 65 | 0 | 0 | 678,000 | 0 | 678,000 |
| Dependents under age 65 | 0 | 0 | 51,000 | 0 | 51,000 |
| Dependents over age 65 | <u>0</u> | <u>0</u> | <u>20,000</u> | <u>0</u> | <u>20,000</u> |
| Total | 0 | 0 | 1,057,000 | 0 | 1,057,000 |
| Total Accrued Liability | 63,000 | 229,000 | 3,872,000 | 45,000 | 4,209,000 |



TOWN OF COLCHESTER
OTHER POST-EMPLOYMENT BENEFITS PROGRAM

SENSITIVITY ANALYSIS

Our results are highly dependent on two key assumptions: the rate at which we assume medical costs will increase over time, and the discount rate we use to translate future payments into current dollars. The results shown on the prior page are based on our baseline assumptions; the figures below show how the accrued liability would change if we varied these assumptions.

| | Medical Benefits | |
|--|-------------------------|----------------|
| | Pre-65 | Post-65 |
| Medical inflation rate baseline | | |
| Initial inflation rate | 5.80% | 5.80% |
| Ultimate inflation rate | 4.40% | 4.40% |
| Years until ultimate inflation rate | 49 | 49 |

To show the sensitivity of our results to this assumption, we have looked at the impact of an increase or decrease of 1.00% on these rates.

Discount rate baseline 4.00%

The discount rate is based on the long-term earnings potential of any investments set up in a trust to prefund these benefits. The 4.00% baseline discount rate assumes the benefits are not prefunded; GASB 45 requires the discount rate to be set based on the expected earnings of the Town's general fund. We also looked at a 6.00% discount rate based on the establishment of an OPEB trust with a conservative portfolio of 50% stocks / 50% bonds. And finally, we looked at an 8.00% discount rate representing a trust with a portfolio of 60% stocks / 40% bonds

Sensitivity to changes in assumptions

| | <u>Discount rate</u> | <u>Medical inflation rate</u> | | |
|--------------------------|-----------------------------|--------------------------------------|------------------|-------------------|
| | | less 1.00% | Baseline | plus 1.00% |
| Accrued Liability | 4.00% | 3,683,000 | 4,209,000 | 4,855,000 |
| | 6.00% | 2,877,000 | 3,229,000 | 3,647,000 |
| | 8.00% | 2,325,000 | 2,573,000 | 2,862,000 |
| Percent change | 4.00% | -12.5% | | 15.3% |
| from baseline | 6.00% | -31.6% | -23.3% | -13.4% |
| | 8.00% | -44.8% | -38.9% | -32.0% |

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ANNUAL REQUIRED CONTRIBUTION

The Annual Required Contribution (ARC) for the OPEB program consists of two pieces: a **Normal Cost** (the cost of benefits earned each year should be accrued in that year) plus a **Past Service Cost** (a catch-up accrual to amortize the Unfunded Accrued Liability). The amortization period is 30 years starting FY 2009. The amortization method produces annual payments that will increase over time as payroll grows. On this basis, the ARC is determined as follows:

| | Police & Fire | Town | BOE Certified | BOE Non- Certified | Total |
|----------------------------|---------------|---------------|------------------|-----------------------|----------------|
| Accrued Liability | \$63,000 | \$229,000 | \$3,872,000 | \$45,000 | \$4,209,000 |
| Assets | 0 | 0 | 0 | 0 | 0 |
| Unfunded Accrued Liability | 63,000 | 229,000 | 3,872,000 | 45,000 | 4,209,000 |
| Amortization Period | 26 | 26 | 26 | 26 | 26 |
| Payroll Growth Rate | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |
| Past Service Cost | 2,000 | 9,000 | 149,000 | 2,000 | 162,000 |
| Normal Cost | 4,000 | 23,000 | 222,000 | 4,000 | 253,000 |
| Interest | 0 | 1,000 | 15,000 | 0 | 16,000 |
| ARC for FY 2013 | 6,000 | 33,000 | 386,000 | 6,000 | 431,000 |
| Expected Benefit Payouts | 1,000 | 10,000 | 130,000 | 1,000 | 142,000 |

As with the Accrued Liability, the ARC is highly dependent on the medical inflation rate and discount rate assumptions:

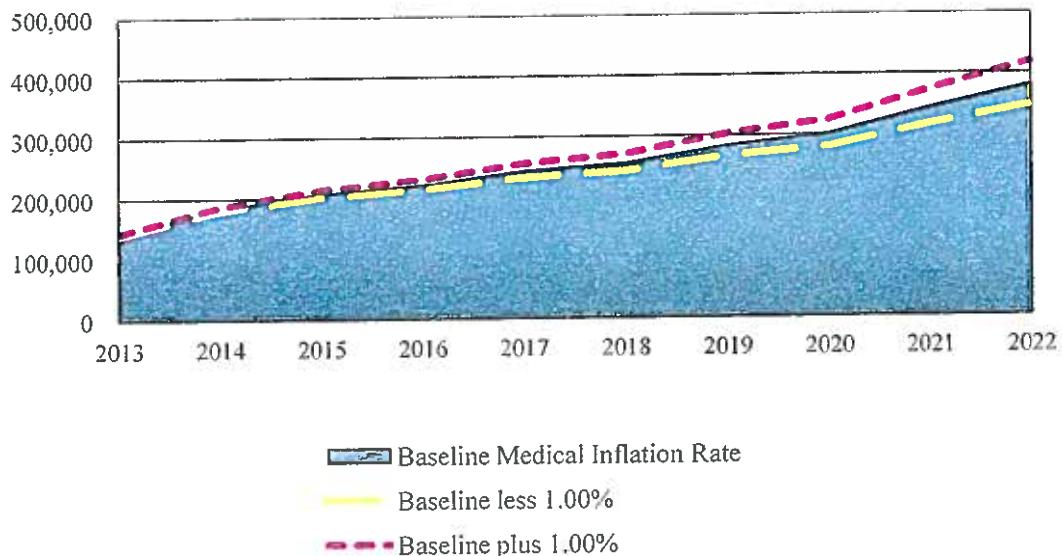
| | <u>Discount rate</u> | <u>Medical Inflation rate</u> | | |
|------------------------|----------------------|-------------------------------|----------|------------|
| | | less 1.00% | Baseline | plus 1.00% |
| ARC for FY 2013 | 4.00% | 369,000 | 431,000 | 506,000 |
| | 6.00% | 315,000 | 357,000 | 411,000 |
| | 8.00% | 276,000 | 310,000 | 351,000 |

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PROJECTED PAYOUTS

The annual Town payments for OPEB benefits are expected to rise sharply in coming years, both because medical costs are expected to rise over time and because more employees will retire and start to receive Town-paid OPEB benefits. The table and graph below show the expected annual payments for OPEB benefits for the next 10 years under the different medical inflation rates described on the preceding page.

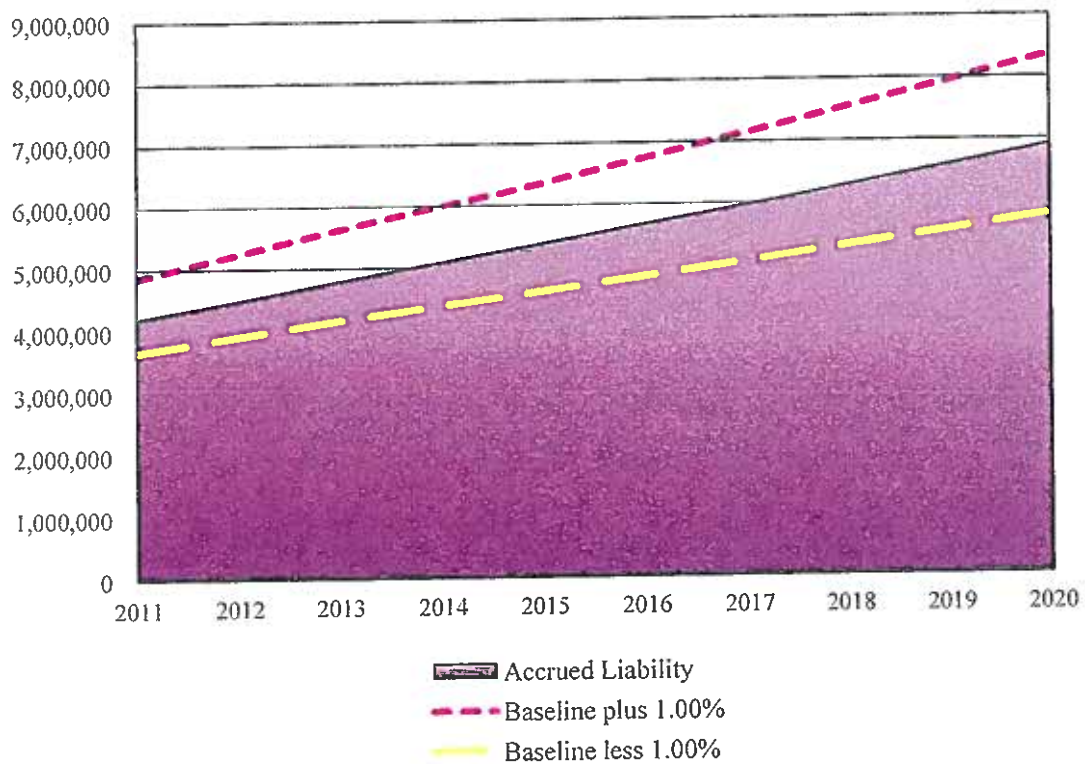
| Fiscal Year | Baseline less 1.00% | Baseline Medical Inflation Rate | Baseline plus 1.00% |
|-------------|------------------------|--|------------------------|
| 2013 | \$140,000 | \$142,000 | \$143,000 |
| 2014 | 180,000 | 184,000 | 187,000 |
| 2015 | 202,000 | 208,000 | 214,000 |
| 2016 | 214,000 | 222,000 | 231,000 |
| 2017 | 232,000 | 244,000 | 256,000 |
| 2018 | 242,000 | 256,000 | 271,000 |
| 2019 | 266,000 | 284,000 | 303,000 |
| 2020 | 280,000 | 302,000 | 325,000 |
| 2021 | 316,000 | 344,000 | 374,000 |
| 2022 | 346,000 | 381,000 | 419,000 |



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PROJECTED LIABILITIES

The graph below shows how the Town's accrued liability for OPEB benefits is expected to grow over the next 10 years under the different medical inflation rates described on the preceding page.



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GASB 45 SCHEDULE OF FUNDING PROGRESS

The following information is required to be disclosed in the Town's financial statement.

(\$ 000s)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Accrued Liability (b) | Unfunded Accrued Liability (UAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAL as a Percentage of Covered Payroll ((b - a) / c) |
|--------------------------------|--|-----------------------------|--|----------------------------|---------------------------|--|
| 7/1/2011 | \$0 | \$4,209 | \$4,209 | 0% | N/A | N/A |

The results shown above are based on the baseline assumptions with respect to the medical inflation rate and the discount rate, as discussed in the Sensitivity Analysis section of this report. The 4.00% baseline discount rate assumes the benefits are not prefunded; GASB 45 requires the discount rate to be set based on the expected earnings of the Town's general fund.

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GASB 45 SCHEDULE OF EMPLOYER CONTRIBUTIONS

The following information is required to be disclosed in the Town's financial statement.

(\$ 000s)

| Year Ended June 30 | Annual Required Contribution | Actual Contribution Made | Percentage Contributed |
|---------------------------|---|-------------------------------------|-----------------------------------|
| 2013 | \$431 | N/A | N/A |

The results shown above are based on the baseline assumptions with respect to the medical inflation rate and the discount rate, as discussed in the Sensitivity Analysis section of this report. The 4.00% baseline discount rate assumes the benefits are not prefunded; GASB 45 requires the discount rate to be set based on the expected earnings of the Town's general fund.

TOWN OF COLCHESTER
OTHER POST-EMPLOYMENT BENEFITS PROGRAM

SUMMARY OF CENSUS DATA

The following were included in our analysis based on information provided as of July 1, 2011 by the Town.

| | Police & Fire | Town | BOE Certified | BOE Non- Certified | Total |
|-------------------------------|---------------|-----------|------------------|-----------------------|------------|
| Number of members | | | | | |
| Active | 16 | 57 | 221 | 115 | 409 |
| Retired members | 0 | 0 | 19 | 0 | 19 |
| Spouses of retirees | 0 | 0 | 9 | 0 | 9 |
| Total | 16 | 57 | 249 | 115 | 437 |
| Average age | | | | | |
| Active | 39.6 | 50.6 | 47.1 | 51.7 | 48.6 |
| Retired | N/A | N/A | 58.7 | N/A | 58.7 |
| Average retirement age | | | | | |
| Active | 54.7 | 61.3 | 60.8 | 62.8 | 61.2 |
| Retired | N/A | N/A | N/A | N/A | N/A |
| Expected lifetime | | | | | |
| Active [to retirement] | 15.0 | 10.7 | 13.7 | 11.1 | 12.6 |
| Retired [lifetime] | N/A | N/A | 28.2 | N/A | 28.2 |

The retiree census data excludes post 65 Medicare eligible retired members who are paying 100% of the premium.

Where complete census data was not available, we have made assumptions which we believe to be reasonable.

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CURRENT PREMIUMS

Based on the information provided by the Town regarding current plan elections, the following weighted average blended actual premiums were used:

| 2011 - 2012 Monthly COBRA Premiums | Employee | Spouse |
|---|-----------------|---------------|
| Medical - BOE | \$578.65 | \$579.08 |
| Medical - Town | 592.06 | 591.55 |
| Dental - BOE | 34.23 | 35.45 |
| Dental - Town | 36.41 | 37.73 |

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HEALTH COST ADJUSTMENT FACTORS

Milliman's Health Cost Guidelines were used to develop the expected relationship of the true cost of health benefits across age and gender. Representative factors are shown below.

| Age | BOE - Medical | | Town - Medical | |
|-----|---------------|--------|----------------|--------|
| | Employee | Spouse | Employee | Spouse |
| 40 | 1.43% | 3.20% | 2.56% | 1.90% |
| 45 | 2.98% | 4.41% | 3.92% | 3.38% |
| 50 | 4.09% | 5.06% | 4.74% | 4.37% |
| 55 | 3.81% | 5.29% | 4.83% | 4.26% |
| 60 | 3.96% | 4.64% | 4.43% | 4.18% |
| 65 | 1.94% | 2.15% | 2.08% | 2.01% |
| 70 | 2.08% | 2.27% | 2.21% | 2.14% |
| 75 | 1.30% | 1.64% | 1.54% | 1.41% |
| 80 | 1.36% | 1.01% | 1.11% | 1.24% |

| Age | BOE - Dental | | Town - Dental | |
|-----|--------------|--------|---------------|--------|
| | Employee | Spouse | Employee | Spouse |
| 40 | 1.36% | 1.61% | 1.53% | 1.43% |
| 45 | 1.05% | 1.44% | 1.31% | 1.16% |
| 50 | 0.57% | 0.76% | 0.70% | 0.62% |
| 55 | 0.05% | 0.29% | 0.21% | 0.12% |
| 60 | 0.12% | 0.16% | 0.14% | 0.13% |
| 65 | -0.09% | -0.20% | -0.16% | -0.12% |
| 70 | 0.00% | 0.00% | 0.00% | 0.00% |
| 75 | 0.00% | 0.00% | 0.00% | 0.00% |
| 80 | 0.00% | 0.00% | 0.00% | 0.00% |

**TOWN OF COLCHESTER
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ACTUARIAL METHOD

The actuarial funding method used is the **Projected Unit Credit Cost Method**. Recommended annual contributions consist of two pieces: Normal Cost plus a payment towards the Unfunded Accrued Liability.

The **Accrued Liability** is determined directly as the present value of benefits accrued to date, where the accrued benefit for each Member is the pro-rata portion (based on service to date) of the **projected** benefit payable at death, disability, retirement or termination.

The **Normal Cost** is similarly determined as the present value of the portion of the **projected** benefit attributable to the current year.

The **Unfunded Accrued Liability** is the Accrued Liability less the value of any plan assets.

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ACTUARIAL ASSUMPTIONS

Payroll Growth Rate 4.00%

Healthy Mortality **Teachers and Administrators[#]:** RP-2000 Combined Healthy Mortality Table projected forward 19 years using Scale AA, with a two-year age setback.

All Others: RP-2000 Combined Healthy Mortality Table with generational projection using Scale AA.

Disabled Mortality **Teachers and Administrators[#]:** RP-2000 Combined Healthy Mortality Table projected forward 19 years using Scale AA, with an eight-year age set forward.

All Others: RP-2000 Combined Healthy Mortality Table with generational projection using Scale AA.

Turnover **Teachers and Administrators[#]:** rates based on gender and length of service for the first ten years and gender and age thereafter:

| Service | Male | Female |
|----------------|-------------|---------------|
| 0-1 | 14.00% | 12.00% |
| 1-2 | 8.50 | 9.00 |
| 2-3 | 5.50 | 7.00 |
| 3-4 | 4.50 | 6.00 |
| 4-5 | 3.50 | 5.50 |
| 5-6 | 2.50 | 5.00 |
| 6-7 | 2.40 | 4.50 |
| 7-8 | 2.30 | 3.50 |
| 8-9 | 2.20 | 3.00 |
| 9-10 | 2.10 | 2.50 |

| Age | Male | Female |
|------------|-------------|---------------|
| 25 | 1.20% | 3.50% |
| 35 | 1.20 | 3.50 |
| 45 | 1.26 | 1.30 |
| 55 | 3.36 | 1.60 |

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ACTUARIAL ASSUMPTIONS

Turnover

Police: None.

All Others: rates based on age:

| Age | Rate |
|-----|--------|
| 20 | 14.00% |
| 25 | 10.20 |
| 30 | 7.07 |
| 35 | 5.53 |
| 40 | 4.55 |
| 45 | 3.85 |
| 50 | 2.70 |
| 55 | 0.00 |

Retirement

Teachers and Administrators[#]: rates based on age, eligibility for pension benefits, and gender:

| Age | Unreduced | | Proratable | | Reduced | |
|---------|-----------|--------|------------|--------|---------|--------|
| | Male | Female | Male | Female | Male | Female |
| 50 – 51 | 27.5% | 15.0% | | | 2.0% | 2.0% |
| 52 | 27.5% | 15.0% | | | 3.0% | 4.0% |
| 53 | 27.5% | 15.0% | | | 3.0% | 4.5% |
| 54 | 27.5% | 15.0% | | | 5.0% | 5.5% |
| 55 | 38.5% | 30.0% | | | 5.0% | 7.5% |
| 56 | 38.5% | 30.0% | | | 7.0% | 8.5% |
| 57 | 38.5% | 30.0% | | | 10.0% | 9.5% |
| 58 | 38.5% | 30.0% | | | 11.0% | 10.0% |
| 59 | 38.5% | 30.0% | | | 12.0% | 10.0% |
| 60 | 22.0% | 20.0% | 6.0% | 5.4% | | |
| 61 | 25.3% | 22.5% | 6.0% | 7.2% | | |
| 62 | 25.3% | 22.5% | 15.0% | 9.9% | | |
| 63-64 | 27.5% | 22.5% | 10.0% | 7.2% | | |
| 65 | 36.3% | 30.0% | 20.0% | 13.5% | | |
| 66 | 27.5% | 30.0% | 20.0% | 10.8% | | |
| 67 | 27.5% | 30.0% | 20.0% | 13.5% | | |
| 68 | 27.5% | 30.0% | 20.0% | 10.8% | | |
| 69 | 27.5% | 30.0% | 35.0% | 10.8% | | |
| 70-73 | 100.0% | 40.0% | 35.0% | 10.8% | | |
| 74 | 100.0% | 40.0% | 35.0% | 18.0% | | |
| 75 – 79 | 100.0% | 40.0% | 40.0% | 18.0% | | |
| 80 | 100.0% | 100.0% | 40.0% | 18.0% | | |

**TOWN OF COLCHESTER
OTHER POST-EMPLOYMENT BENEFITS PROGRAM**

ACTUARIAL ASSUMPTIONS

Retirement

Police: 10% of employees are assumed to retire when first eligible for normal retirement. 5% are assumed to retire in the years thereafter. 100% of employees are assumed to retire at 24 years of service.

All Others: rates based on age:

| Age | First Year Eligible | All Other Ages |
|-------|------------------------|-------------------|
| 55 | 15% | 6% |
| 56 | 15 | 6 |
| 57 | 15 | 7 |
| 58-59 | 15 | 7 |
| 60-61 | 15 | 10 |
| 62-64 | 15 | 15 |
| 65 | 25 | 25 |
| 66-69 | 20 | 20 |
| 70 | 100 | 100 |

Disability

Teachers and Administrators[#]: rates based on age and gender:

| Age | Male | Female |
|-----|---------|---------|
| 20 | 0.0455% | 0.0500% |
| 30 | 0.0455 | 0.0410 |
| 40 | 0.0715 | 0.0720 |
| 50 | 0.3250 | 0.2630 |
| 60 | 1.2805 | 0.5000 |

Police: None.

All Others: The 1952 Disability Study of the Society of Actuaries, Period 2, Benefit 5 rates.

Cost Blending

In order to dampen the volatility of premium changes, this valuation is based on 75% of expected costs and 25% of actual costs.

**TOWN OF COLCHESTER
OTHER POST-EMPLOYMENT BENEFITS PROGRAM**

ACTUARIAL ASSUMPTIONS

Future Retiree Coverage 90% of **Police and Fire**, 70% of **Town**, 95% of **Teachers and Administrators** and 10% of **BOE Non-Certified** active members are assumed to elect coverage at retirement.

Future Dependent Coverage Current active members are assumed to elect dependent coverage at retirement as follows. All female spouses are assumed to be 3 years younger than males.

| | Male | Female |
|------------------------------------|-------------|---------------|
| Teachers and Administrators | 60% | 50% |
| BOE Non-Certified | 50% | 25% |
| Town, Police and Fire | 50% | 50% |

Future Post-65 Coverage **Teachers and Administrators:**

90% of current actives and pre-65 retirees are assumed either to enroll in retiree health coverage through the Connecticut State Teachers Retirement System at age 65, or transfer to a Medicare Supplement Plan. 92% of current actives and pre-65 retirees are assumed to be Medicare-eligible (Prior: 91%).

All Others: N/A.

Certain actuarial demographic assumptions for Teachers and Administrators are based on the assumptions used in the 2006 valuation of the Connecticut State Teachers Retirement System by Gabriel, Roeder, Smith and Company.

**TOWN OF COLCHESTER
OTHER POST-EMPLOYMENT BENEFITS PROGRAM**

SUMMARY OF PLAN PROVISIONS

Eligibility

Teachers and Administrators

A Teacher or Administrator retiring shall be eligible to receive health benefits for self and spouse.

Normal Retirement for Teachers and Administrators is the earliest of age 60 with 20 years of service, or completion of 35 years of service regardless of age. Early Retirement is the earliest of age 60 with 10 years of service, any age with 25 years of service, or age 55 with 20 years of service.

BOE Custodians and Maintenance

Retired employee shall be eligible to receive health benefits for self and spouse.

BOE Central Office, BOE Educational Personnel, BOE Nurses, and BOE Office Professionals

Employee retiring with at least 20 years of service shall be eligible to receive health benefits for self and spouse.

Police

Members who have retired on or after July 1, 2000 under the Colchester Police Department Pension Plan with at least 10 years of service shall be eligible to receive health benefits for self and spouse.

Normal Retirement for Police Officers is 20 years of service.

Town Hall Local 1303 and Library

Employee hired prior to July 1, 2009 and retiring on or after July 1, 2009 with at least 10 years of service shall be eligible to receive health benefits for self and spouse.

Town MEUI Local 506

Employee retiring on or after July 1, 1999 (July 1, 1998 for Town Administrators) shall be eligible to receive health benefits for self and spouse.

**TOWN OF COLCHESTER
OTHER POST-EMPLOYMENT BENEFITS PROGRAM**

SUMMARY OF PLAN PROVISIONS

| | |
|---------------------|--|
| Eligibility | Fire and Town Non Union Members who have retired on or after July 1, 2000 with at least 10 years of service shall be eligible to receive health benefits for self and spouse. |
| Cost Sharing | BOE Teachers and Administrators Retiree/Spouse – 100% retiree-paid*. * less \$1,320 annual CT Teachers Retirement Board subsidy BOE Non-Certified Retiree/Spouse – 100% retiree-paid Town, Library, Police and Fire Retiree/Spouse – 100% retiree-paid for a period not to exceed 5 years. Coverage is Pre 65 only. Post 65 – Eligible retiree is offered Medicare risk plan at own expense. |

This summary is intended only to describe our understanding of the essential features of the benefits that will be provided to future retirees based on copies of bargaining agreements, the Town's personnel rules and the benefits being currently provided to retired members. Many current retired members have different cost sharing provisions. All eligibility requirements and benefit amounts shall be determined in strict accordance with the relevant plan documents. To the extent that this summary does not accurately reflect the plan provisions, then the results of this valuation may not be accurate.