



The elements of success



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Town of Wilton

Post-retirement Medical Plan (OPEB)

Review of the July 1, 2020 Actuarial Valuation

Steve Lemanski, FSA, FCA, MAAA, Enrolled Actuary

Vice President, Practice Leader, Consulting Actuary

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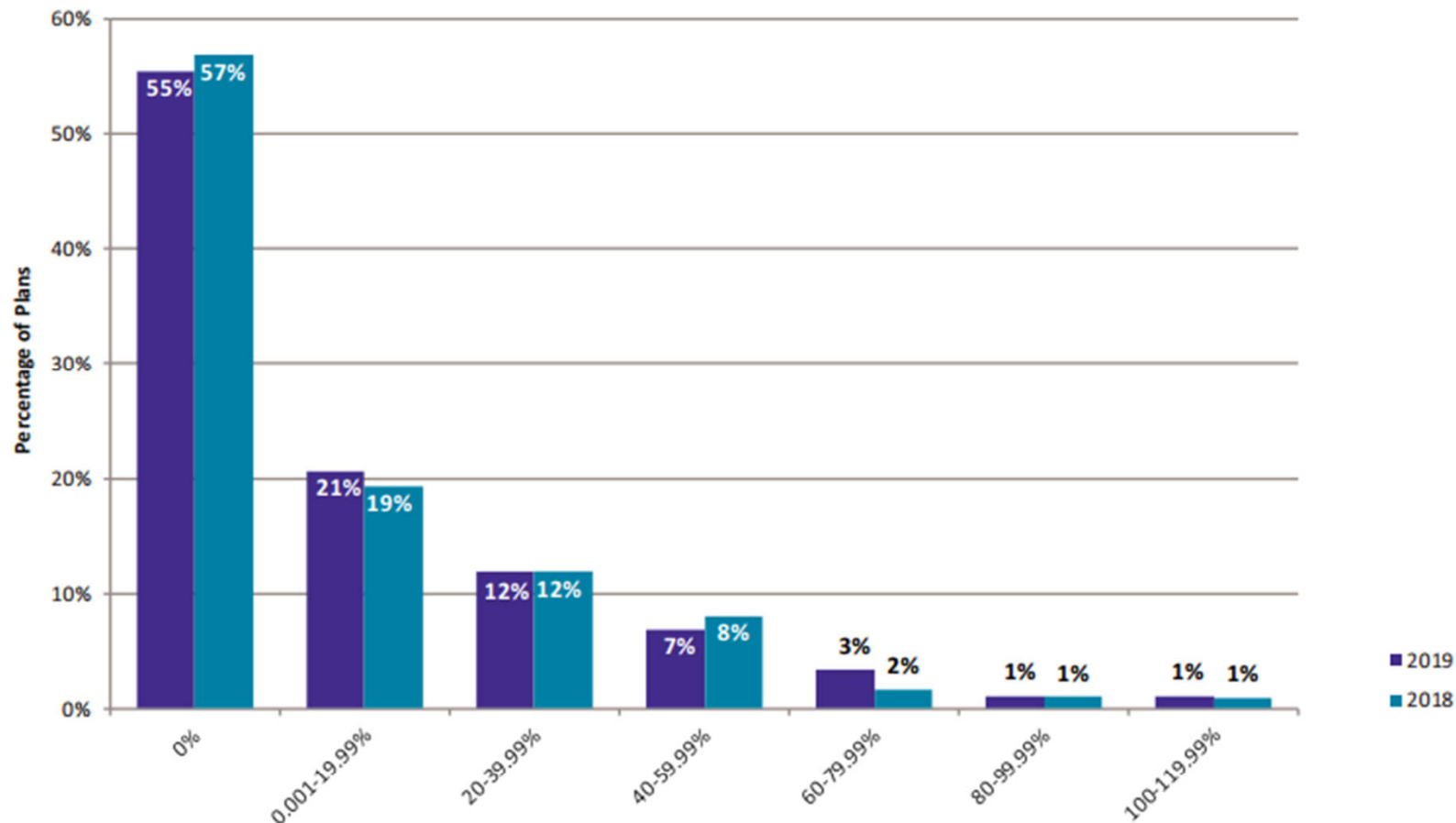
The ultimate cost of an OPEB plan is based primarily on the level of benefits promised by the plan. The OPEB fund's investment earnings serve to reduce the cost of plan benefits and expenses. Thus,

$$\text{Town's Ultimate cost} = \text{Benefits Paid} + \text{Expenses Incurred} - \text{Investment Return} - \text{Member Contributions}$$

- Actuarial Valuation utilizes an actuarial cost method to assign a portion of this “ultimate cost” to the budget year. The valuation does not determine the cost of the plan but is a tool used to determine the appropriate level of Town contributions.
- Actuarially Determined Employer Contribution (ADEC) developed from the valuation is comprised of two components: amortization of unfunded liability (*20 years for 2020 valuation, open period*) & normal cost (assignment of benefits “earned” for the budget year).

- Funded ratio is 138.5% for 2020 valuation vs. 109.0% in 2018 valuation
- Favorable plan experience with respect to premiums and per capita claims costs, including moving Town groups to State Partnership 2.0 plan. Gain of 3.3% on actuarial liability.
- Asset gain: smoothed (actuarial) investment return averaged 10.4%/year vs. 5.75% assumption (market value return averaged 5.4%/year)
- Assumptions updated for healthcare cost trend rates and inflation, and applicable current CT State Teachers (TRS) assumptions for BOE Certified members – reduced actuarial liability by 1.3%
- OPEB utilization assumption updated for BOE certified members – reduced actuarial liability by 8.8%
- The December 2019 repeal of the “Cadillac Tax” was reflected in this valuation and reduced the actuarial accrued liability by about 1.4%

CT OPEB Plans : H&H Survey (FYE 2019)



Many public sector OPEB plans continue to be unfunded arrangements, as the Government Accounting Standards Board (GASB) did not require actuarial measurements of the liabilities until about a decade ago.

As of FYE 2019, approximately 55% of the OPEB plans in Connecticut are unfunded, with the remaining 45% of plans funded via an OPEB trust. These statistics represent a slight shift (2% of plans) from unfunded to funded arrangements since our 2019 report.

- **Inflation** – Reduced from 2.6% to 2.4%, consistent with Social Security Administration’s current best estimate for long-term (75-year horizon) annual increase in CPI.
- **Healthcare cost trend rates** – Updated to 6.5% for 2020, grading down to ultimate rate of 4.4% for 2031 and later. Reduction in ultimate trend rate from 4.6% to 4.4% is consistent with assumption change for inflation.
- **BOE Certified** - Reflected the most recent applicable CT State Teachers (TRS) assumptions in the TRS 2020 actuarial valuation. Also lowered the OPEB utilization assumption from 80% to 60% based on a review of actual experience, as well as CT public sector trends.
- *Combined impact of above assumption changes : reduced actuarial accrued liability by 10.1%.*

Valuation Summary – Funded Status



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	Police	Fire	Town	BOE Certified	BOE Non-Certified	Total
Actuarial accrued liability for active members						
Members under age 65	\$952,884	\$275,222	\$9,437	\$1,135,686	\$11,542	\$2,384,771
Members over age 65	0	0	0	84,014	10,356	94,370
Dependents under age 65	536,867	205,474	5,584	405,750	5,948	1,159,623
Dependents over age 65	0	0	0	40,313	0	40,313
Total	1,489,751	480,696	15,021	1,665,763	27,846	3,679,077
Actuarial accrued liability for inactive members						
Members under age 65	134,788	144,816	6,593	69,755	0	355,952
Members over age 65	0	0	0	1,768,049	2,464	1,770,513
Dependents under age 65	54,704	62,567	0	0	0	117,271
Dependents over age 65	0	0	0	285,618	0	285,618
Total	189,492	207,383	6,593	2,123,422	2,464	2,529,354
Total actuarial accrued liability	1,679,243	688,079	21,614	3,789,185	30,310	6,208,431
Actuarial value of assets	2,326,396	953,254	29,943	5,249,474	41,991	8,601,058
Unfunded accrued liability	(647,153)	(265,175)	(8,329)	(1,460,289)	(11,681)	(2,392,627)
Funded ratio	138.5%	138.5%	138.5%	138.5%	138.5%	138.5%

Valuation Summary – ADEC (Town Contribution)



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	Police	Fire	Town	BOE Certified	BOE Non-Certified	Total
Town's normal cost	\$82,638	\$22,112	\$1,892	\$90,047	\$1,544	\$198,233
Actuarial accrued liability	1,679,243	688,079	21,614	3,789,185	30,310	6,208,431
Actuarial value of assets	<u>2,326,396</u>	<u>953,254</u>	<u>29,943</u>	<u>5,249,474</u>	<u>41,991</u>	<u>8,601,058</u>
Unfunded accrued liability	(647,153)	(265,175)	(8,329)	(1,460,289)	(11,681)	(2,392,627)
Amortization of unfunded accrued liability*	(52,276)	(21,420)	(673)	(90,047)	(944)	(165,360)
Contribution before adjustment as of the valuation date	30,362	692	1,219	0	600	32,873
Fiscal year ending June 30, 2022						
Adjustment for interest and inflation	<u>4,600</u>	<u>1,020</u>	<u>120</u>	<u>0</u>	<u>87</u>	<u>5,827</u>
Actuarially determined employer contribution	34,962	1,712	1,339	0	687	38,700
Underfunding "load"	0%	0%	0%	0%	0%	0%
Total Contribution with "load"	34,962	1,712	1,339	0	687	38,700
Fiscal year ending June 30, 2023						
Adjustment for interest and inflation	<u>3,904</u>	<u>1,045</u>	<u>89</u>	<u>0</u>	<u>73</u>	<u>5,111</u>
Actuarially determined employer contribution	38,866	2,757	1,428	0	760	43,811
Underfunding "load"	0%	0%	0%	0%	0%	0%
Total Contribution with "load"	38,866	2,757	1,428	0	760	43,811

*The negative amortization installment cannot exceed the Town's normal cost

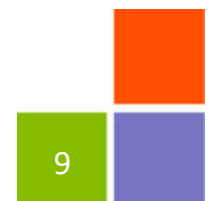


Projected Benefit Payments



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Year	Active as of July 1, 2020	Retired and Terminated as of July 1, 2020	Total Benefit Payments
2020	\$13,211	\$233,621	\$246,832
2021	41,814	226,235	268,049
2022	70,432	229,855	300,287
2023	99,033	245,518	344,551
2024	137,405	209,975	347,380
2025	186,562	214,453	401,015
2026	204,887	189,906	394,793
2027	253,938	164,234	418,172
2028	301,820	166,209	468,029
2029	367,506	167,115	534,621
2030	382,786	166,888	549,674
2031	451,069	165,459	616,528
2032	492,842	162,961	655,803
2033	532,172	159,725	691,897
2034	610,509	155,794	766,303
2035	596,732	151,304	748,036
2036	627,953	146,238	774,191
2037	711,088	140,593	851,681
2038	725,978	134,387	860,365
2039	785,312	127,643	912,955



Target Allocation and Expected Rate of Return July 1, 2020

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*	Weighting
Cash	5.00%	-0.25%	-0.01%
Core Fixed Income	30.00%	1.25%	0.38%
Global Fixed Income	5.00%	2.00%	0.10%
High Yield Fixed Income	5.00%	4.00%	0.20%
U.S. Large Cap Equity	24.00%	5.25%	1.26%
U.S. Small Cap Equity	6.00%	5.75%	0.35%
International Developed Equity	16.00%	5.75%	0.92%
Emerging Markets Equity	4.00%	7.75%	0.31%
REITs	5.00%	5.75%	0.29%
	100.00%		3.80%
Long-Term Inflation Expectation			2.40%
Long-Term Expected Nominal Return			6.20%

**Long-Term Real Returns are provided by HHIA. The returns are geometric means.*

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return are developed. Best estimates of the real rates of return for each major asset class are included in the OPEB plan's target asset allocation.

The information above is based on geometric means and does not reflect additional returns through investment selection, asset allocation and rebalancing. An expected rate of return of 5.75% was used.

	Police	Fire	Town	BOE Certified	BOE Non-Certified	Total
Total members July 1, 2020						
Active members	43	26	77	413	186	745
Retirees	4	3	1	13	1	22
Dependents of current retirees	1	1	0	2	0	4
Total	48	30	78	428	187	771
Average age July 1, 2020						
Active members	41.2	50.9	57.5	46.1	54.7	49.3
Retirees	61.4	60.0	63.6	72.5	64.7	68.0
Dependents of current retirees	58.8	58.5	N/A	68.2	N/A	63.5
Total members July 1, 2018						
Active members	42	28	77	412	212	771
Retirees	5	5	2	19	1	32
Dependents of current retirees	1	1	0	6	0	8
Total	48	34	79	437	213	811
Average age July 1, 2018						
Active members	41.4	50.1	57.3	46.4	54.0	49.4
Retirees	60.5	59.4	63.0	68.7	63.6	65.4
Dependents of current retirees	56.8	56.5	N/A	66.0	N/A	63.7

Recommendations for 2022 Valuation

- Continue to review current investment return assumption of 5.75%, based on emerging capital market assumptions and long-term inflation expectations
- Recommend performing pension experience study prior to 2021 pension plan valuation (most recent study reviewed plan experience through FYE 2015), and map any applicable assumption changes to 2022 OPEB valuation