

**TOWN OF ESSEX, CONNECTICUT**

Notes to Financial Statements *(Continued)*

June 30, 2013

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**NOTE I - OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

**Plan Descriptions**

***Employees' OPEB Plan***

The Town of Essex offers post-retirement medical benefits to certain employees under a single-employer defined benefit healthcare plan. Benefits provided by the plan include supplemental healthcare insurance benefits for eligible retirees who have reached the age of 65 with 25 years of service. Benefits are provided through the Town's group health insurance plan, which covers both active and retired members. Benefit provisions are established and can be amended by the Town. The plan does not issue a publicly available financial report and is not included in the financial statements of another entity.

***Teachers' OPEB Plan***

The Town of Essex offers post-retirement medical and dental benefits to eligible retirees and their spouses through the Board of Education's group health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiations between the Town and the union representing Town employees. The Plan does not issue a publicly available financial report and is not included in the financial statements of another entity.

**NOTE I - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**

**Funding Policy**

***Employees' OPEB Plan***

Contribution requirements of the Town are established in the plan provisions and may be amended by the Town. Currently, the Town contributes 100% percent of the cost of current-year premiums for eligible retired plan members. Plan members are not required to contribute. For fiscal year 2013, contributions totaled \$12,646. The Town finances the cost of these benefits on a pay-as-you-go basis.

***Teachers' OPEB Plan***

Contributions requirements of the plan members are established in the provisions of the program and in accordance with the General Statutes of the State of Connecticut. Currently, plan members are required to contribute 100% of their healthcare premiums to the Town, less any reimbursements received by the Town from the State Retirement Board. The Town finances the plan on a pay-as-you-go-basis.

**Annual OPEB Cost and Net OPEB Obligation**

The Town's annual OPEB cost is calculated based on the annual required contribution ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation.

	<u>Employees'</u> <u>OPEB Plan</u>	<u>Teachers'</u> <u>OPEB Plan</u>
Annual required contribution	\$ 40,519	\$ 44,248
Interest on net OPEB obligation	5,119	9,316
Adjustment to annual required contribution	<u>(5,847)</u>	<u>(11,280)</u>
Annual OPEB cost	39,791	42,284
Contributions made	<u>12,646</u>	<u>-</u>
Increase in net OPEB obligation	27,145	42,284
Net OPEB obligation, beginning of year	<u>85,320</u>	<u>155,266</u>
Net OPEB obligation, end of year	<u>\$ 112,465</u>	<u>\$ 197,550</u>

**NOTE I - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**

**Annual OPEB Cost and Net OPEB Obligation (Continued)**

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the years ended June 30, 2011 through 2013 is as follows:

Year Ended June 30	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
<b>Employees' OPEB Plan</b>				
2011	\$ 33,994	\$ 12,343	36%	\$ 58,687
2012	39,112	12,479	32%	85,320
2013	39,791	12,646	32%	112,465
<b>Teachers' OPEB Plan</b>				
2011	\$ 39,676	\$ -	0%	\$ 110,447
2012	44,819	-	0%	155,266
2013	42,284	-	0%	197,550

**Funded Status and Funding Progress**

The funded status of both plans as of the date of the most recent actuarial valuations was as follows:

Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Entry Age Normal Cost Method (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
<b>Employees' OPEB Plan</b>					
\$ -	\$ 430,452	\$ 430,452	0.0%	N/A	N/A
<b>Teachers' OPEB Plan</b>					
\$ -	\$ 425,094	\$ 425,094	0.0%	N/A	N/A

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the Town are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**NOTE H - PENSION PLANS (Continued)**

***Teachers' Retirement System***

The faculty and professional personnel of the Board of Education participate in a contributory defined benefit plan, established under Chapter 167a of the Connecticut General Statutes, which is administered by the Connecticut State Teachers' Retirement Board.

Certain part-time and all full-time certified teachers are eligible to participate in the plan and are required to contribute 7.25% of their annual earnings to the plan. The Town does not and is not legally responsible to contribute to the plan. After five years of service, teachers are fully vested in their own contributions. After ten years of service, teachers are fully vested in the monthly pension benefit which is payable at the age of sixty. The State of Connecticut contributes based on actuarially determined amounts. The funding level was determined based on an actuarial valuation of the plan as a whole, which does not provide actuarial information on an individual Town basis. For the year ended June 30, 2013, Town teachers contributed \$174,520 to the plan and covered payroll for the year was \$2,407,172.

In accordance with the provisions of Governmental Accounting Standards Board Statement No. 24, the Town has reported "on behalf" payments of \$504,784 made by the State of Connecticut into the plan as intergovernmental revenues and related education expenditures of the General Fund in the accompanying statement of revenues, expenditures and changes in fund balances of governmental funds.

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**TOWN OF ESSEX, CONNECTICUT**Notes to Financial Statements *(Continued)*

June 30, 2013

**NOTE I - OTHER POST-EMPLOYMENT BENEFITS (OPEB) *(Continued)*****Actuarial Methods and Assumptions**

Projections of benefits are based on the substantive plan (the plan as understood by the Town and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Town and the plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the Town and plan members in the future. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

	Employees' OPEB Plan	Teachers' OPEB Plan
Valuation date:	July 1, 2011	July 1, 2011
Actuarial cost method:	Entry Age Normal	Entry Age Normal
Amortization method:	Level Dollar Amount	Level Dollar Amount
Remaining amortization period:	30 years, closed	30 years, closed
Asset valuation method:	N/A	N/A
Actuarial assumptions:		
Discount rate	6.0%	6.0%
Healthcare cost trend rate	4.0%	8.0%