



November 7, 2014

Mr. Avi Urbas
Director of Finance & Operations
Manchester-Essex Regional School District
36 Lincoln Street
Manchester, MA 01944

Re: OPEB Study Results

Dear Avi:

As requested, I am summarizing the results of modifying your post-retirement medical plan offered to retirees of the Manchester Essex Regional School District. All of my calculations are based on the results of the 2013 actuarial valuation of the plan, along with all of the actuarial assumptions and methods used in the development of the results.

The 2013 actuarial valuation determined the Annual Required Contribution (ARC), also known as the Accounting Expense for purposes of your financials. It also represents the amount needed to fully fund the obligation when it is developed using a higher discount rate representing the expected long term return on invested assets. The ARC for accounting purposes was \$2,318,685 and the Full Prefunding ARC was \$1,404,194. The amount actually in the budget for OPEB was \$554,069.

You had indicated that the goal of the district is to fully prefund the obligation. To do that, the district must make up the gap between what it is currently funding and its current ARC, a difference of \$1,764,616. Through the changes in plan design for both retirees and actives, and increases in participant co-shares to 25%, the liabilities of the plan have been reduced. The savings associated with the active medical are being funneled to the retiree obligation and are included in the Plan Design figure below. Recent increases in healthcare costs have been much lower than anticipated, resulting in additional savings through a change in assumptions.

The results of the study on the changes are as follows:

	Annual Required Contribution	Difference from Current Funding
2013 without prefunding	\$2,318,685	\$1,764,616
Change in Trend Assumptions	(273,861)	
Change in Plan Design & Co-shares	(779,062)	
Change in Discount Rate for Full Prefunding	<u>(476,248)</u>	
	\$789,514	\$235,445

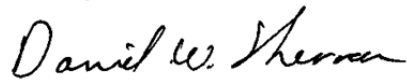
It is important to note that these are only estimates based on the 2013 OPEB actuarial valuation. The actual savings will not be known until after implementation of the changes, and an open enrollment period. These plan changes will affect the choices participants make for their healthcare coverage, and thus, affect the results of the next actuarial valuation.

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The letter was prepared under the supervision of Daniel Sherman, an Associate of the Society of Actuaries and a Member of the American Academy of Actuaries, who takes responsibility for the overall appropriateness of the analysis, assumptions and results. Daniel Sherman is deemed to meet the General Qualification Standard and the basic education and experience requirement in the pension area. Based on over thirty years of performing valuations Massachusetts Retirement Systems, Mr. Sherman is qualified by experience. Daniel Sherman has met the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Let me know if you have any questions regarding these calculations, or need additional assistance.

Sincerely,

A handwritten signature in cursive script that reads "Daniel W. Sherman".

Daniel W. Sherman, ASA, MAAA, EA
CEO