

City of Boston

*Actuarial Valuation and Review of Other Postemployment
Benefits (OPEB) as of June 30, 2011
In accordance with GASB Statements Number 43 and 45*

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April 5, 2012

*Ms. Sally Glora, City Auditor
City of Boston
City Hall Room M-4
Boston, MA 02201*

Dear Sally:

We are pleased to submit this revised Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2011 under Governmental Accounting Standards Board Statements 43 and 45. It establishes the liabilities of the postemployment welfare benefit plan in accordance with GASB Statements Number 43 and 45 for the current year and summarizes the actuarial data.

This report is based on information received from the City. 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 material with you at your convenience.

Sincerely,

THE SEGAL COMPANY

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

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PURPOSE

This report presents the results of our actuarial valuation of the City of Boston (the “Employer”) postemployment welfare benefit plan as of June 30, 2011. 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, 2012, we project the City and Public Health Commission will pay benefits (net of retiree contributions) on behalf of retired employees of about \$147 million. This amount is less than the annual “cost” (the “Annual Required Contribution” or ARC) of \$194 million.

The GASB statements provide the method for selecting the investment return assumption (discount rate). If the benefits are fully funded, the discount rate should be based on the estimated long-term investment yield on the investments expected to be used to finance the payment of benefits. If financing is on a pay-as-you-go basis, the discount rate should be based on the expected yield on the assets of the employer. If the benefits are partially funded, a blended discount rate can be used that reflects the proportionate amounts of plan and employer assets expected to be used. Based on the City’s and Public Health Commission’s funding policies, we have determined a blended rate of 7.25% for the City and 5.75% for the Public Health Commission. The blending is based on a funded discount rate of 8.00% and a

pay-as-you-go discount rate of 4.50%. In the prior valuation, the blended discount rate was 5.25% for both the City and the Public Health Commission.

To determine the amortization payment on the unfunded actuarial accrued liability (UAAL), an amortization period and amortization method must be selected. We have used a 30-year open amortization of the UAAL (the maximum permitted by the GASB statements) for the accounting disclosures, with payments increasing at 4.5% year. The GASB statements allow for either an open or closed amortization period. In open amortization, the period is reset to the initial value every year and the UAAL is reamortized, while under a closed amortization, the remaining period decreases and the UAAL is eventually “paid off.”

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.

The City of Boston and the Public Health Commission have funded \$111,038,375 as of June 30, 2011 in an OPEB Trust Fund as detailed on page 7 of this report. Because this is an irrevocable trust, those assets are reflected in the disclosure information included in this report.

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.

SECTION 1: Introduction for the City of Boston June 30, 2011 Measurement Under GASB 43 and 45

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.

The Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act (HCERA) of 2010 creates a temporary reinsurance program for eligible health care coverage for pre-Medicare retirees over age 55. The program will reimburse the plan sponsor for 80% of the retiree claims between \$15,000 and \$90,000. Due to the short nature of this program, the limited financing, and uncertainty of qualifying and receiving payment (the program will be on a first come first served basis until financing runs out), we have not reflected the value of this program in the valuation. Additional provisions of these Acts that may affect retiree health benefits in the future have not been reflected.

- The **unfunded actuarial accrued liability (UAAL)** as of June 30, 2011 is \$3.061 billion. 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, the ratio of assets to the AAL (the funded ratio) is 3.50%.
- The **Annual Required Contribution (ARC)** is \$194 million this year. 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.

Plan obligations are \$3.172 billion as of June 30, 2011, a decrease of \$1.513 billion from \$4.685 billion as shown in the June 30, 2009 Supplemental Valuation Report.

Plan obligations had been expected to increase \$392 million due to normal plan operations, which consist of continuing accruals for active members, plus interest on the total obligation, less expected benefit payments. The decrease was the net effect of the following:

- An **actuarial experience loss** increased obligations by \$214 million. This was the net result of gains and losses due to demographic changes. A portion of this loss is attributable to the increased election of the more costly insured non-Medicare plans for retirees age 65 or over.
- **Valuation assumption changes** decreased obligations by \$1.347 billion. This was the net result of *decreases* in obligations due to 1) lowering the valuation-year per capita health costs and 2) revising the discount rate from 5.25% to 5.75% for the Public Health Commission and from 5.25% to 7.25% for the City, partially offset by increases in obligations due to 3) a change in the future trend on per capita health care costs, based on our projections of what is likely to occur in the marketplace and 4) a change in the mortality assumption for healthy and disabled lives. The complete set of assumptions is shown in Exhibit II.

- **Plan amendments** decreased obligations by \$772 million. This was due to *decreases* in obligations resulting from increases in retiree premium cost-sharing effective July 1, 2011 and July 1, 2012 for non-Medicare plans and July 1, 2015 for Medicare plans, *decreases* in obligations resulting from projected savings from the movement of Medicare eligible retirees currently enrolled in non-Medicare plans to Medicare plans effective July 1, 2012 due to the revisions to Section 18A of Chapter 32B, partially offset by the Medicare Part B penalty that will be paid by the employer, and *decreases* in obligation due to changes in plan design effective July 1, 2012. The current plan of benefits is summarized in Exhibit III.

We have calculated liabilities separately for employees and retirees identified as Boston Public Schools, All Other City Departments, and Public Health Commission.

SECTION 1: Valuation Results for the City of Boston June 30, 2011 Measurement under GASB

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.

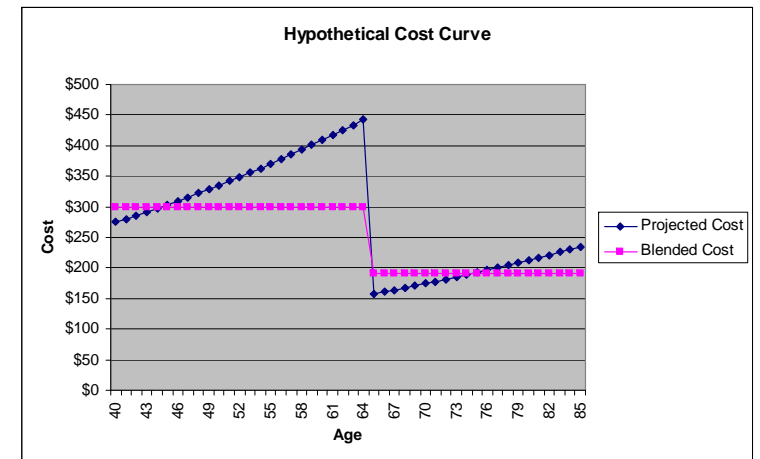
The statements cover postemployment benefits of health, prescription drug, dental, vision and life insurance coverage for retirees; long-term care coverage, life insurance and death benefits that are *not* offered as part of a pension plan; and long-term disability insurance for employees. These benefits, 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.

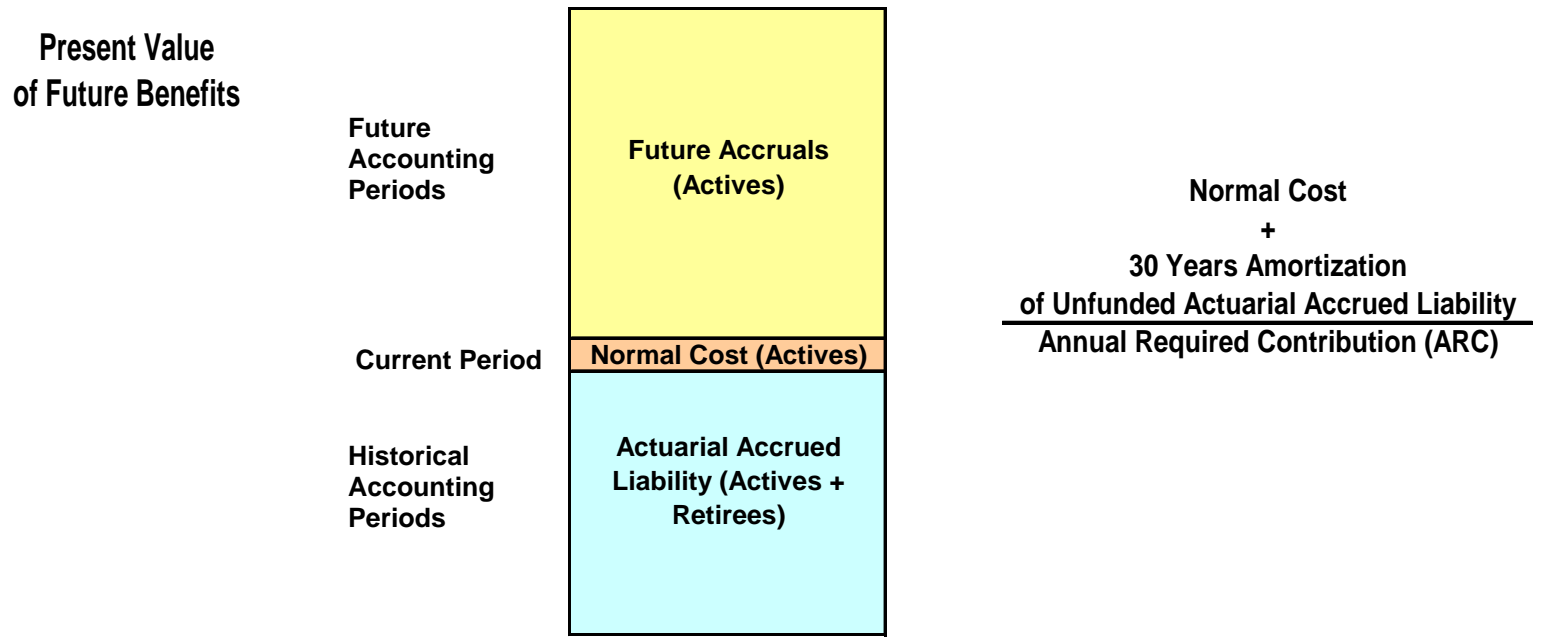


SECTION 1: Valuation Results for the City of Boston June 30, 2011 Measurement under GASB

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: Valuation Results for the City of Boston June 30, 2011 Measurement under GASB

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 City of Boston June 30, 2011 Measurement under GASB

SUMMARY OF VALUATION RESULTS

Actuarial Accrued Liability (AAL) and Annual Required Contribution – 7.25% for City and 5.75% for Public Health Commission

| | Boston Public Schools (A) | All Other Departments (City) (B) | Total City (A) + (B) | Public Health Commission (C) | All Departments Total (A) + (B) + (C) |
|--|--|---|---------------------------------|---|--|
| Actuarial Accrued Liability by Participant Category | | | | | |
| 1. Current retirees, beneficiaries and dependents | \$645,465,159 | \$806,369,999 | \$1,451,835,158 | \$22,282,379 | \$1,474,117,537 |
| 2. Current active members | <u>656,872,778</u> | <u>909,544,327</u> | <u>1,566,417,105</u> | <u>131,135,708</u> | <u>1,697,552,813</u> |
| 3. Total as of July 1, 2011: (1) + (2) | \$1,302,337,937 | \$1,715,914,326 | \$3,018,252,263 | \$153,418,087 | \$3,171,670,350 |
| 4. Actuarial value of assets as of June 30, 2011 | <u>0</u> | <u>109,735,953</u> | <u>\$109,735,953</u> | <u>1,302,422</u> | <u>111,038,375</u> |
| 5. Unfunded actuarial accrued liability (UAAL) as of June 30, 2011 | \$1,302,337,937 | \$1,606,178,373 | \$2,908,516,310 | \$152,115,665 | \$3,060,631,975 |
| Annual Required Contribution for Fiscal Year Ending June 30, 2012 | | | | | |
| 6. Normal cost as of July 1, 2011 | \$23,702,976 | \$20,243,866 | \$43,946,841 | \$6,320,149 | \$50,266,990 |
| 7. 30-year increasing amortization (4.50% per year) of the unfunded actuarial accrued liability (UAAL) as of June 30, 2011 | <u>61,695,823</u> | <u>76,089,695</u> | <u>137,785,518</u> | <u>5,992,862</u> | <u>143,778,380</u> |
| 8. Total Annual Required Contribution (ARC): (6) + (7) | \$85,398,799 | \$96,333,561 | \$181,732,359 | \$12,313,011 | \$194,045,370 |
| 9. Projected net benefit payments for fiscal year ending June 30, 2012 | 66,041,128 | 79,467,980 | 145,509,108 | 1,696,099 | 147,205,207 |

Note: Assumes payment at the beginning of the fiscal year.

SECTION 2: Valuation Results for the City of Boston June 30, 2011 Measurement under GASB

PROJECTION OF ARC

**30 Years Open (7.25% discount rate)
Total City (Boston Public Schools and All Other City Departments)**

| Fiscal Year Ended June 30 | (1) Projected Benefit Payments | (2) Normal Cost with Interest | (3) Amortization of UAAL | (4) ARC: (2) + (3) | (5) Additional Funding | (6) Assets at End of Year | (7) AAL at End of Year | (8) UAAL at End of Year: (7) – (6) |
|----------------------------------|---|--|-------------------------------------|-------------------------------|-----------------------------------|--------------------------------------|-----------------------------------|---|
| 2012 | \$145,509,108 | \$43,946,841 | \$137,785,518 | \$181,732,359 | \$35,000,000 | \$156,314,829 | \$3,128,150,020 | \$2,971,835,191 |
| 2013 | 122,845,023 | 46,144,183 | 140,785,131 | 186,929,314 | 35,000,000 | 206,620,016 | 3,272,679,246 | 3,066,059,230 |
| 2014 | 134,008,718 | 48,451,392 | 145,248,818 | 193,700,210 | 35,000,000 | 260,949,617 | 3,418,188,259 | 3,157,238,642 |
| 2015 | 145,385,860 | 50,873,962 | 149,568,273 | 200,442,235 | 35,000,000 | 319,625,586 | 3,564,642,897 | 3,245,017,311 |
| 2016 | 156,425,167 | 53,417,660 | 153,726,623 | 207,144,283 | 35,000,000 | 382,995,633 | 3,712,603,956 | 3,329,608,323 |
| 2017 | 168,378,576 | 56,088,543 | 157,733,964 | 213,822,507 | 35,000,000 | 451,435,284 | 3,861,336,682 | 3,409,901,398 |
| 2018 | 180,887,851 | 58,892,970 | 161,537,698 | 220,430,668 | 35,000,000 | 525,350,106 | 4,010,444,082 | 3,485,093,975 |
| 2019 | 193,437,750 | 61,837,619 | 165,099,805 | 226,937,424 | 35,000,000 | 605,178,115 | 4,160,060,137 | 3,554,882,022 |
| 2020 | 205,624,872 | 64,929,499 | 168,405,884 | 233,335,383 | 35,000,000 | 691,392,364 | 4,310,768,710 | 3,619,376,346 |
| 2021 | 217,355,429 | 68,175,974 | 171,461,181 | 239,637,155 | 35,000,000 | 784,503,753 | 4,463,304,476 | 3,678,800,723 |
| 2022 | 229,052,208 | 71,584,773 | 174,276,300 | 245,861,073 | 35,000,000 | 885,064,054 | 4,618,010,227 | 3,732,946,173 |
| 2023 | 240,504,818 | 75,164,012 | 176,841,339 | 252,005,351 | 35,000,000 | 993,669,178 | 4,775,487,953 | 3,781,818,775 |
| 2024 | 252,530,059 | 78,922,212 | 179,156,588 | 258,078,800 | 35,000,000 | 1,110,962,712 | 4,935,516,414 | 3,824,553,702 |
| 2025 | 265,156,562 | 82,868,323 | 181,181,075 | 264,049,398 | 35,000,000 | 1,237,639,729 | 5,097,837,217 | 3,860,197,488 |
| 2026 | 278,414,390 | 87,011,739 | 182,869,632 | 269,881,371 | 35,000,000 | 1,374,450,907 | 5,262,151,072 | 3,887,700,165 |
| 2027 | 292,335,110 | 91,362,326 | 184,172,520 | 275,534,846 | 35,000,000 | 1,522,206,980 | 5,428,113,714 | 3,905,906,734 |
| 2028 | 306,951,865 | 95,930,442 | 185,035,022 | 280,965,464 | 35,000,000 | 1,681,783,538 | 5,595,331,483 | 3,913,547,944 |
| 2029 | 322,299,459 | 100,726,965 | 185,397,010 | 286,123,975 | 35,000,000 | 1,854,126,221 | 5,763,356,515 | 3,909,230,294 |
| 2030 | 338,414,432 | 105,763,313 | 185,192,470 | 290,955,783 | 35,000,000 | 2,040,256,319 | 5,931,681,537 | 3,891,425,218 |
| 2031 | 355,335,153 | 111,051,478 | 184,348,988 | 295,400,466 | 35,000,000 | 2,241,276,825 | 6,099,734,208 | 3,858,457,383 |
| 2032 | 373,101,911 | 116,604,052 | 182,787,198 | 299,391,250 | 35,000,000 | 2,458,378,971 | 6,266,870,985 | 3,808,492,014 |
| 2033 | 391,757,006 | 122,434,255 | 180,420,182 | 302,854,437 | 35,000,000 | 2,692,849,288 | 6,432,370,480 | 3,739,521,192 |
| 2034 | 411,344,857 | 128,555,968 | 177,152,819 | 305,708,787 | 35,000,000 | 2,946,077,231 | 6,595,426,256 | 3,649,349,025 |
| 2035 | 431,912,100 | 134,983,766 | 172,881,081 | 307,864,847 | 35,000,000 | 3,219,563,410 | 6,755,139,022 | 3,535,575,613 |
| 2036 | 453,507,705 | 141,732,954 | 167,491,279 | 309,224,233 | 35,000,000 | 3,514,928,482 | 6,910,508,182 | 3,395,579,700 |
| 2037 | 476,183,090 | 148,819,602 | 160,859,234 | 309,678,836 | 35,000,000 | 3,833,922,761 | 7,060,422,685 | 3,226,499,924 |
| 2038 | 499,992,244 | 156,260,582 | 152,849,396 | 309,109,978 | 35,000,000 | 4,178,436,582 | 7,203,651,122 | 3,025,214,540 |
| 2039 | 524,991,856 | 164,073,611 | 143,313,878 | 307,387,489 | 35,000,000 | 4,550,511,509 | 7,338,831,010 | 2,788,319,502 |
| 2040 | 551,241,449 | 172,277,292 | 132,091,419 | 304,368,711 | 35,000,000 | 4,952,352,429 | 7,464,457,200 | 2,512,104,771 |
| 2041 | 578,803,522 | 180,891,157 | 119,006,263 | 299,897,420 | 35,000,000 | 5,386,340,624 | 7,578,869,335 | 2,192,528,712 |

*Notes: Assumes payment at the beginning of the fiscal year.
Amortization payments calculated to increase 4.5% per year.*

SECTION 2: Valuation Results for the City of Boston June 30, 2011 Measurement under GASB

PROJECTION OF ARC CONTINUED

**30 Years Open (5.75% discount rate)
Public Health Commission**

| Fiscal Year Ended June 30 | (1) Projected Benefit Payments | (2) Normal Cost with Interest | (3) Amortization of UAAL | (4) ARC: (2) + (3) | (5) Additional Funding | (6) Assets at End of Year | (7) AAL at End of Year | (8) UAAL at End of Year: (7) – (6) |
|----------------------------------|---|--|-------------------------------------|-------------------------------|-----------------------------------|--------------------------------------|-----------------------------------|---|
| 2012 | \$1,696,099 | \$6,320,149 | \$5,992,862 | \$12,313,011 | \$1,250,000 | \$2,756,616 | \$167,129,560 | \$164,372,945 |
| 2013 | 1,809,415 | 6,636,157 | 6,475,758 | 13,111,915 | 1,250,000 | 4,327,145 | 181,843,790 | 177,516,645 |
| 2014 | 2,287,842 | 6,967,965 | 6,993,577 | 13,961,542 | 1,250,000 | 6,023,317 | 197,249,037 | 191,225,721 |
| 2015 | 2,807,659 | 7,316,363 | 7,533,670 | 14,850,033 | 1,250,000 | 7,855,182 | 213,358,811 | 205,503,629 |
| 2016 | 3,387,618 | 7,682,181 | 8,096,173 | 15,778,354 | 1,250,000 | 9,833,597 | 230,168,444 | 220,334,847 |
| 2017 | 4,058,353 | 8,066,290 | 8,680,475 | 16,746,765 | 1,250,000 | 11,970,284 | 247,641,523 | 235,671,238 |
| 2018 | 4,817,431 | 8,469,605 | 9,284,679 | 17,754,284 | 1,250,000 | 14,277,907 | 265,743,084 | 251,465,177 |
| 2019 | 5,620,061 | 8,893,085 | 9,906,909 | 18,799,994 | 1,250,000 | 16,770,140 | 284,484,534 | 267,714,394 |
| 2020 | 6,374,301 | 9,337,739 | 10,547,075 | 19,884,814 | 1,250,000 | 19,461,751 | 303,976,231 | 284,514,480 |
| 2021 | 7,179,783 | 9,804,626 | 11,208,943 | 21,013,569 | 1,250,000 | 22,368,691 | 324,230,635 | 301,861,945 |
| 2022 | 8,038,659 | 10,294,857 | 11,892,377 | 22,187,234 | 1,250,000 | 25,508,186 | 345,259,827 | 319,751,641 |
| 2023 | 8,440,592 | 10,809,600 | 12,597,173 | 23,406,773 | 1,250,000 | 28,898,841 | 367,617,493 | 338,718,652 |
| 2024 | 8,862,622 | 11,350,080 | 13,344,411 | 24,694,491 | 1,250,000 | 32,560,748 | 391,385,987 | 358,825,238 |
| 2025 | 9,305,753 | 11,917,584 | 14,136,545 | 26,054,129 | 1,250,000 | 36,515,608 | 416,652,693 | 380,137,085 |
| 2026 | 9,771,040 | 12,513,464 | 14,976,162 | 27,489,626 | 1,250,000 | 40,786,857 | 443,510,335 | 402,723,479 |
| 2027 | 10,259,592 | 13,139,137 | 15,865,993 | 29,005,130 | 1,250,000 | 45,399,805 | 472,057,298 | 426,657,493 |
| 2028 | 10,772,572 | 13,796,094 | 16,808,915 | 30,605,009 | 1,250,000 | 50,381,790 | 502,397,967 | 452,016,177 |
| 2029 | 11,311,200 | 14,485,898 | 17,807,964 | 32,293,862 | 1,250,000 | 55,762,333 | 534,643,093 | 478,880,760 |
| 2030 | 11,876,761 | 15,210,193 | 18,866,341 | 34,076,534 | 1,250,000 | 61,573,319 | 568,910,175 | 507,336,856 |
| 2031 | 12,470,599 | 15,970,703 | 19,987,419 | 35,958,122 | 1,250,000 | 67,849,185 | 605,323,871 | 537,474,686 |
| 2032 | 13,094,128 | 16,769,238 | 21,174,751 | 37,943,989 | 1,250,000 | 74,627,120 | 644,016,422 | 569,389,302 |
| 2033 | 13,748,835 | 17,607,700 | 22,432,083 | 40,039,783 | 1,250,000 | 81,947,289 | 685,128,116 | 603,180,826 |
| 2034 | 14,436,277 | 18,488,085 | 23,763,359 | 42,251,444 | 1,250,000 | 89,853,072 | 728,807,769 | 638,954,697 |
| 2035 | 15,158,090 | 19,412,489 | 25,172,733 | 44,585,222 | 1,250,000 | 98,391,318 | 775,213,243 | 676,821,924 |
| 2036 | 15,915,995 | 20,383,114 | 26,664,578 | 47,047,692 | 1,250,000 | 107,612,624 | 824,511,982 | 716,899,358 |
| 2037 | 16,711,795 | 21,402,269 | 28,243,499 | 49,645,768 | 1,250,000 | 117,571,634 | 876,881,598 | 759,309,964 |
| 2038 | 17,547,384 | 22,472,383 | 29,914,338 | 52,386,721 | 1,250,000 | 128,327,364 | 932,510,475 | 804,183,111 |
| 2039 | 18,424,754 | 23,596,002 | 31,682,194 | 55,278,196 | 1,250,000 | 139,943,553 | 991,598,422 | 851,654,869 |
| 2040 | 19,345,991 | 24,775,802 | 33,552,427 | 58,328,229 | 1,250,000 | 152,489,038 | 1,054,357,356 | 901,868,318 |
| 2041 | 20,313,291 | 26,014,592 | 35,530,673 | 61,545,265 | 1,250,000 | 166,038,161 | 1,121,012,030 | 954,973,869 |

*Notes: Assumes payment at the beginning of the fiscal year.
Amortization payments calculated to increase 4.5% per year.*

SECTION 2: Valuation Results for the City of Boston June 30, 2011 Measurement under GASB

PROJECTION OF ARC CONTINUED

**30 Years Open (7.25% discount rate for City and 5.75% discount rate for Public Health Commission)
All Departments Including Public Health Commission**

| Fiscal Year Ended June 30 | (1) Projected Benefit Payments | (2) Normal Cost with Interest | (3) Amortization of UAAL | (4) ARC: (2) + (3) | (5) Additional Funding | (6) Assets at End of Year | (7) AAL at End of Year | (8) UAAL at End of Year: (7) – (6) |
|----------------------------------|---|--|-------------------------------------|-----------------------------------|-----------------------------------|--------------------------------------|-----------------------------------|---|
| 2012 | \$147,205,208 | \$50,266,990 | \$143,778,380 | \$194,045,370 | \$36,250,000 | \$159,071,445 | \$3,295,279,581 | \$3,136,208,136 |
| 2013 | 124,654,438 | 52,780,340 | 147,260,889 | 200,041,229 | 36,250,000 | 210,947,161 | 3,454,523,035 | 3,243,575,875 |
| 2014 | 136,296,560 | 55,419,357 | 152,242,395 | 207,661,752 | 36,250,000 | 266,972,933 | 3,615,437,297 | 3,348,464,363 |
| 2015 | 148,193,519 | 58,190,325 | 157,101,943 | 215,292,268 | 36,250,000 | 327,480,768 | 3,778,001,709 | 3,450,520,941 |
| 2016 | 159,812,785 | 61,099,841 | 161,822,796 | 222,922,637 | 36,250,000 | 392,829,230 | 3,942,772,399 | 3,549,943,170 |
| 2017 | 172,436,929 | 64,154,833 | 166,414,439 | 230,569,272 | 36,250,000 | 463,405,568 | 4,108,978,205 | 3,645,572,637 |
| 2018 | 185,705,282 | 67,362,575 | 170,822,377 | 238,184,952 | 36,250,000 | 539,628,013 | 4,276,187,166 | 3,736,559,152 |
| 2019 | 199,057,811 | 70,730,703 | 175,006,714 | 245,737,417 | 36,250,000 | 621,948,254 | 4,444,544,671 | 3,822,596,416 |
| 2020 | 211,999,173 | 74,267,239 | 178,952,959 | 253,220,198 | 36,250,000 | 710,854,115 | 4,614,744,940 | 3,903,890,825 |
| 2021 | 224,535,212 | 77,980,601 | 182,670,124 | 260,650,725 | 36,250,000 | 806,872,444 | 4,787,535,111 | 3,980,662,667 |
| 2022 | 237,090,867 | 81,879,631 | 186,168,677 | 268,048,308 | 36,250,000 | 910,572,240 | 4,963,270,054 | 4,052,697,814 |
| 2023 | 248,945,410 | 85,973,612 | 189,438,512 | 275,412,124 | 36,250,000 | 1,022,568,019 | 5,143,105,446 | 4,120,537,428 |
| 2024 | 261,392,681 | 90,272,293 | 192,500,999 | 282,773,292 | 36,250,000 | 1,143,523,460 | 5,326,902,401 | 4,183,378,940 |
| 2025 | 274,462,315 | 94,785,907 | 195,317,620 | 290,103,527 | 36,250,000 | 1,274,155,337 | 5,514,489,910 | 4,240,334,573 |
| 2026 | 288,185,431 | 99,525,203 | 197,845,794 | 297,370,997 | 36,250,000 | 1,415,237,764 | 5,705,661,407 | 4,290,423,644 |
| 2027 | 302,594,702 | 104,501,463 | 200,038,513 | 304,539,976 | 36,250,000 | 1,567,606,785 | 5,900,171,012 | 4,332,564,227 |
| 2028 | 317,724,437 | 109,726,536 | 201,843,937 | 311,570,473 | 36,250,000 | 1,732,165,328 | 6,097,729,449 | 4,365,564,121 |
| 2029 | 333,610,659 | 115,212,863 | 203,204,974 | 318,417,837 | 36,250,000 | 1,909,888,554 | 6,297,999,608 | 4,388,111,054 |
| 2030 | 350,291,192 | 120,973,506 | 204,058,811 | 325,032,317 | 36,250,000 | 2,101,829,638 | 6,500,591,713 | 4,398,762,074 |
| 2031 | 367,805,752 | 127,022,181 | 204,336,407 | 331,358,588 | 36,250,000 | 2,309,126,009 | 6,705,058,079 | 4,395,932,069 |
| 2032 | 386,196,039 | 133,373,290 | 203,961,949 | 337,335,239 | 36,250,000 | 2,533,006,090 | 6,910,887,406 | 4,377,881,316 |
| 2033 | 405,505,841 | 140,041,955 | 202,852,265 | 342,894,220 | 36,250,000 | 2,774,796,577 | 7,117,498,596 | 4,342,702,018 |
| 2034 | 425,781,133 | 147,044,053 | 200,916,178 | 347,960,231 | 36,250,000 | 3,035,930,304 | 7,324,234,026 | 4,288,303,722 |
| 2035 | 447,070,190 | 154,396,255 | 198,053,814 | 352,450,069 | 36,250,000 | 3,317,954,728 | 7,530,352,265 | 4,212,397,537 |
| 2036 | 469,423,700 | 162,116,068 | 194,155,857 | 356,271,925 | 36,250,000 | 3,622,541,106 | 7,735,020,164 | 4,112,479,058 |
| 2037 | 492,894,884 | 170,221,871 | 189,102,733 | 359,324,604 | 36,250,000 | 3,951,494,395 | 7,937,304,282 | 3,985,809,888 |
| 2038 | 517,539,629 | 178,732,965 | 182,763,734 | 361,496,699 | 36,250,000 | 4,306,763,946 | 8,136,161,597 | 3,829,397,651 |
| 2039 | 543,416,610 | 187,669,613 | 174,996,072 | 362,665,685 | 36,250,000 | 4,690,455,062 | 8,330,429,433 | 3,639,974,371 |
| 2040 | 570,587,441 | 197,053,094 | 165,643,846 | 362,696,940 | 36,250,000 | 5,104,841,467 | 8,518,814,556 | 3,413,973,089 |
| 2041 | 599,116,813 | 206,905,749 | 154,536,936 | 361,442,685 | 36,250,000 | 5,552,378,784 | 8,699,881,365 | 3,147,502,581 |

*Notes: Assumes payment at the beginning of the fiscal year.
Amortization payments calculated to increase 4.5% per year.*

April 5, 2012

ACTUARIAL CERTIFICATION

This is to certify that The Segal Company has conducted an actuarial valuation of certain benefit obligations of the City of Boston other postemployment benefit programs as of June 30, 2011, 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.

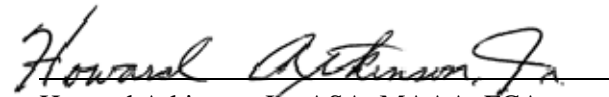
The actuarial valuation is based on the plan of benefits verified by the City and on participant, claims, premium rates and administrative fees provided by the City or from vendors employed by the City.

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 City are reasonably related to the experience and expectations of the postemployment benefit programs.



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



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

SECTION 3: Valuation Details for the City of Boston June 30, 2011 Measurement under GASB

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

Total City (Boston Public Schools and All Other City Departments)

| Fiscal Year Ended June 30, | Annual OPEB Cost | Actual Contribution | Percentage Contributed |
|---------------------------------------|-------------------------|--------------------------------|-----------------------------------|
| 2008 | \$327,751,953 | \$114,929,005 | 35.1% |
| 2009 | 346,425,114 | 128,454,226 | 37.1% |
| 2010 | 258,991,410 | 153,433,928 | 59.2% |
| 2011 | 270,750,128 | 229,808,409 | 84.9% |
| 2012 | 196,237,927 | 180,509,108 | 92.0% |
| 2013 | 201,830,098 | -- | -- |

Note: The fiscal year ended June 30, 2012 actual contribution includes additional funding payment of \$35 million.

Public Health Commission

| Fiscal Year Ended June 30, | Annual OPEB Cost | Actual Contribution | Percentage Contributed |
|---------------------------------------|-------------------------|--------------------------------|-----------------------------------|
| 2008 | \$16,559,975 | \$990,398 | 6.0% |
| 2009 | 17,877,834 | 1,268,223 | 7.1% |
| 2010 | 11,890,916 | 1,323,269 | 11.1% |
| 2011 | 12,828,317 | 2,860,172 | 22.3% |
| 2012 | 13,267,324 | 2,946,099 | 22.2% |
| 2013 | 14,253,076 | -- | -- |

Note: The fiscal year ended June 30, 2012 actual contribution includes additional funding payment of \$1.25 million.

SECTION 3: Valuation Details for the City of Boston June 30, 2011 Measurement under GASB

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**

Total City (Boston Public Schools and All Other City Departments)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued 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) |
|---------------------------------|--------------------------------------|--|--------------------------------------|-------------------------------|----------------------------|--|
| 6/30/2007 | \$0 | \$5,490,836,471 | \$5,490,836,471 | 0.00% | \$919,662,197 | 597.0% |
| 6/30/2009 | 0 | 4,553,815,553 | 4,553,815,553 | 0.00% | 1,008,003,640 | 451.8% |
| 6/30/2011 | 109,735,953 | 3,018,252,263 | 2,908,516,310 | 3.64% | 1,045,487,800 | 278.2% |

Public Health Commission

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued 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) |
|---------------------------------|--------------------------------------|--|--------------------------------------|-------------------------------|----------------------------|--|
| 6/30/2007 | \$0 | \$163,981,208 | \$163,981,208 | 0.00% | \$47,922,000 | 342.2% |
| 6/30/2009 | 0 | 131,156,250 | 131,156,250 | 0.00% | 52,914,849 | 247.9% |
| 6/30/2011 | 1,302,422 | 153,418,087 | 152,115,665 | 0.85% | 56,913,569 | 267.3% |

SECTION 3: Valuation Details for the City of Boston June 30, 2011 Measurement under GASB

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

Total City (Boston Public Schools and All Other City Departments)

| 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) |
|-----------------------------------|---|-------------------------------------|---------------------------|---|---------------------------------------|--|-------------------------------------|
| 2008 | \$327,751,953 | \$0 | \$0 | \$327,751,953 | \$114,929,005 | \$212,822,948 | \$212,822,948 |
| 2009 | 344,100,040 | 9,577,033 | (7,251,959) | 346,425,114 | 128,454,226 | 217,970,888 | 430,793,836 |
| 2010 | 252,685,033 | 22,616,676 | (16,310,299) | 258,991,410 | 153,433,928 | 105,557,482 | 536,351,318 |
| 2011 | 262,898,498 | 28,158,444 | (20,306,814) | 270,750,128 | 229,808,409 | 40,941,719 | 577,293,037 |
| 2012 | 181,732,359 | 41,853,745 | (27,348,177) | 196,237,927 | 180,509,108 | 15,728,819 | 593,021,855 |
| 2013 | 186,929,314 | 42,994,085 | (28,093,301) | 201,830,098 | -- | -- | -- |

Note: The fiscal year ended June 30, 2012 actual contribution includes additional funding payment of \$35 million.

Public Health Commission

| 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) |
|-----------------------------------|---|-------------------------------------|---------------------------|---|---------------------------------------|--|-------------------------------------|
| 2008 | \$16,559,975 | \$0 | \$0 | \$16,559,975 | \$990,398 | \$15,569,577 | \$15,569,577 |
| 2009 | 17,707,738 | 700,631 | (530,535) | 17,877,834 | 1,268,223 | 16,609,611 | 32,179,188 |
| 2010 | 11,419,846 | 1,689,407 | (1,218,337) | 11,890,916 | 1,323,269 | 10,567,647 | 42,746,835 |
| 2011 | 12,202,547 | 2,244,209 | (1,618,439) | 12,828,317 | 2,860,172 | 9,968,145 | 52,714,980 |
| 2012 | 12,313,011 | 3,031,111 | (2,076,798) | 13,267,324 | 2,946,099 | 10,321,225 | 63,036,205 |
| 2013 | 13,111,915 | 3,624,582 | (2,483,421) | 14,253,076 | -- | -- | -- |

Note: The fiscal year ended June 30, 2012 actual contribution includes additional funding payment of \$1.25 million.

SECTION 3: Valuation Details for the City of Boston June 30, 2011 Measurement under GASB

**CHART 4
Required Supplementary Information**

| | | |
|---|--|--------------------------|
| Valuation date | June 30, 2011 | |
| Actuarial cost method | Projected Unit Credit | |
| Amortization method | Payments increasing at 4.50% per year | |
| Remaining amortization period | 30 years open | |
| Asset valuation method | Market value | |
| Actuarial assumptions: | | |
| Investment rate of return | 7.25% City of Boston, 5.75% Public Health Commission | |
| Inflation rate | 4.50% | |
| Asset rate of return | 8.00% | |
| Medical/drug cost trend rate | 9.00% decreasing by 0.50% to an ultimate level of 5.00% | |
| Medicare Part B | 6.00% | |
| Administrative expense increase rate | 3.00% | |
| Plan membership: | | |
| | Total City (Boston Public Schools and All Other City Departments) | Public Health Commission |
| Current retirees, beneficiaries, and dependents | 14,106 | 128 |
| Current active members | <u>14,539</u> | <u>998</u> |
| Total | 28,646 | 1,126 |

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

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

EXHIBIT I

Summary of Participant Data as of June 30, 2011

| | Boston Public Schools (A) | All Other Departments (City) (B) | Total City (A) + (B) | Public Health Commission (C) | All Departments Total (A) + (B) + (C) |
|--|----------------------------------|---|-----------------------------|-------------------------------------|--|
| Retirees, Beneficiaries, and Dependents | | | | | |
| Number | 6,024 | 8,082 | 14,106 | 128 | 14,234 |
| Average age | 71.2 | 71.9 | 71.6 | 62.7 | 71.5 |
| Active Employees | | | | | |
| Number | 7,198 | 7,341 | 14,539 | 998 | 15,537 |
| Average age | 44.91 | 45.90 | 45.41 | 44.05 | 45.32 |
| Average years of service | 13.55 | 16.39 | 14.98 | 11.11 | 14.73 |
| Average age at hire | 31.36 | 29.52 | 30.43 | 32.94 | 30.59 |

Summary of Participant Data as of June 30, 2009

| | Boston Public Schools (A) | All Other Departments (City) (B) | Total City (A) + (B) | Public Health Commission (C) | All Departments Total (A) + (B) + (C) |
|--|----------------------------------|---|-----------------------------|-------------------------------------|--|
| Retirees, Beneficiaries, and Dependents | | | | | |
| Number | 5,677 | 8,124 | 13,801 | 102 | 13,903 |
| Average age | 70.9 | 72.0 | 71.5 | 61.6 | 71.4 |
| Active Employees | | | | | |
| Number | 7,495 | 7,687 | 15,182 | 993 | 16,175 |
| Average age | 44.9 | 45.4 | 45.1 | 43.4 | 45.0 |
| Average years of service | 13.5 | 15.8 | 14.7 | 10.0 | 14.4 |
| Average age at hire | 31.4 | 29.6 | 30.5 | 33.4 | 30.7 |

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method

Data: Detailed census data, claims, premium rates, administrative fees and summary plan descriptions for postemployment welfare benefits were provided by the City.

Actuarial Cost Method: Projected Unit Credit

Per Capita Cost Development:

Insured plans

Per capita costs were based on the fully-insured premium rates effective July 1, 2011 (January 1, 2011 and January 1, 2012 for Medicare Advantage plans and supplemental Tufts Medicare Compliment), 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.

Self-Funded plans (Blue Cross Blue Shield Master Medical, Blue Choice, and Blue Care Elect Preferred)

Per capita claims costs were based on the monthly paid claims experience by participant group and by coverage (medical and prescription drug) for the period July 1, 2009 through June 30, 2011. Claims were adjusted as follows:

- paid claims were multiplied by a factor to yield an estimate of incurred claims,
- total claims were divided by the number of adult members to yield a per capita claim cost, and
- the per capita claim cost was trended to the midpoint of the valuation year at assumed trend rates.

Taking a weighted average, per capita medical and prescription drug claims were combined. The weights used in this average account for a number of factors including each plan year's volatility of claims experience and distance to the valuation year. Actuarial factors were then applied to the weighted average cost to estimate individual retiree and spouse costs by age and by gender.

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

| | |
|--|---|
| Measurement Date: | June 30, 2011 |
| Discount Rate: | 7.25% City of Boston and 5.75% Public Health Commission (previously, 5.25%) |
| Expected Return on Assets: | 8.00% |
| Postretirement Mortality Rates: | |
| <i>Healthy</i> | RP-2000 Combined Healthy Mortality Table projected 11 years with Scale AA (gender distinct) (previously, RP-2000 Combined Healthy Mortality Table) |
| <i>Disabled</i> | RP-2000 Combined Healthy Mortality Table projected three years with Scale AA (gender distinct) set forward five years (previously, RP-2000 Combined Healthy Mortality Table set forward five years) |

Termination Rates before Retirement:

| Age | Groups 1 and 2 - Rate (%) | | | |
|-----|---------------------------|--------|------------|------------|
| | Mortality | | Disability | Withdrawal |
| | Male | Female | | |
| 20 | 0.03 | 0.02 | 0.06 | 6.58 |
| 25 | 0.03 | 0.02 | 0.09 | 5.27 |
| 30 | 0.04 | 0.02 | 0.11 | 4.83 |
| 35 | 0.07 | 0.04 | 0.15 | 4.47 |
| 40 | 0.10 | 0.06 | 0.22 | 3.84 |
| 45 | 0.13 | 0.09 | 0.36 | 3.21 |
| 50 | 0.18 | 0.14 | 0.61 | 1.52 |
| 55 | 0.29 | 0.25 | 1.01 | 0.33 |
| 60 | 0.56 | 0.48 | 1.63 | 0.00 |

*Notes: 50% of the disability rates shown represent accidental disability.
20% of the death rates shown represent accidental death.*

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

| Age | Group 4 - Rate (%) | | | |
|-----|--------------------|--------|------------|------------|
| | Mortality | | Disability | Withdrawal |
| | Male | Female | | |
| 20 | 0.03 | 0.02 | 0.12 | 0.00 |
| 25 | 0.03 | 0.02 | 0.17 | 0.00 |
| 30 | 0.04 | 0.02 | 0.22 | 0.00 |
| 35 | 0.07 | 0.04 | 0.29 | 0.00 |
| 40 | 0.10 | 0.06 | 0.44 | 0.00 |
| 45 | 0.13 | 0.09 | 0.72 | 0.00 |
| 50 | 0.18 | 0.14 | 1.21 | 0.00 |
| 55 | 0.29 | 0.25 | 2.02 | 0.00 |
| 60 | 0.56 | 0.48 | 3.25 | 0.00 |

*Notes: 90% of the disability rates shown represent accidental disability.
50% of the death rates shown represent accidental death.*

Retirement Rates:

| Age | Rate (%) | | | |
|-----|----------------|------|-----|---------|
| | Groups 1 and 2 | TARP | Age | Group 4 |
| 55 | 3.0 | 3.0 | 50 | 1.0 |
| 56 | 3.0 | 7.5 | 51 | 1.0 |
| 57 | 3.0 | 25.0 | 52 | 1.0 |
| 58 | 3.0 | 25.0 | 53 | 1.0 |
| 59 | 3.0 | 25.0 | 54 | 1.0 |
| 60 | 8.0 | 18.0 | 55 | 10.0 |
| 61 | 8.0 | 18.0 | 56 | 5.0 |
| 62 | 15.0 | 25.0 | 57 | 5.0 |
| 63 | 10.0 | 20.0 | 58 | 5.0 |
| 64 | 10.0 | 20.0 | 59 | 5.0 |

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

| Age | Groups 1 and 2 | Rate (%) | | Age | Group 4 |
|-----|-------------------|----------|--|-----|---------|
| | | TARP | | | |
| 65 | 35.0 | 35.0 | | 60 | 10.0 |
| 66 | 20.0 | 20.0 | | 61 | 15.0 |
| 67 | 20.0 | 20.0 | | 62 | 15.0 |
| 68 | 20.0 | 20.0 | | 63 | 15.0 |
| 69 | 20.0 | 20.0 | | 64 | 25.0 |
| 70 | 100.00 | 100.0 | | 65 | 100.00 |

Dependents:

Demographic data was available for spouses of current retirees. For current 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, 60% were assumed to have an eligible spouse who also opts for health coverage at that time.

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

Per Capita Health Costs:

2011-2012 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 | Insured Non-Medicare Plans | | | | Blue Choice and Blue Care Elect Preferred | | | |
|-----|--|---------|---------|---------|---|---------|---------|---------|
| | Retiree | | Spouse | | Retiree | | Spouse | |
| | Male | Female | Male | Female | Male | Female | Male | Female |
| 45 | \$7,617 | \$9,556 | \$4,725 | \$7,133 | \$7,099 | \$8,906 | \$4,404 | \$6,648 |
| 50 | 9,041 | 10,298 | 6,315 | 8,269 | 8,426 | 9,598 | 5,886 | 7,706 |
| 55 | 10,737 | 11,085 | 8,450 | 9,571 | 10,007 | 10,331 | 7,876 | 8,920 |
| 60 | 12,751 | 11,949 | 11,313 | 11,101 | 11,884 | 11,136 | 10,543 | 10,346 |
| 64 | 14,629 | 12,676 | 14,281 | 12,494 | 13,634 | 11,813 | 13,310 | 11,644 |
| 65 | 15,144 | 12,872 | 15,144 | 12,872 | 14,114 | 11,997 | 14,114 | 11,997 |
| 70 | 17,552 | 13,872 | 17,552 | 13,872 | 16,358 | 12,928 | 16,358 | 12,928 |
| 75 | 18,915 | 14,932 | 18,915 | 14,932 | 17,628 | 13,916 | 17,628 | 13,916 |
| 80 | 20,369 | 16,098 | 20,369 | 16,098 | 18,983 | 15,003 | 18,983 | 15,003 |
| Age | Master Medical Indemnity Medicare Carveout | | | | Insured Medicare Supplement Plans | | | |
| | Retiree | | Spouse | | Retiree | | Spouse | |
| | Male | Female | Male | Female | Male | Female | Male | Female |
| 45 | \$2,927 | \$3,672 | \$1,816 | \$2,741 | \$2,223 | \$2,789 | \$1,379 | \$2,082 |
| 50 | 3,474 | 3,957 | 2,427 | 3,177 | 2,639 | 3,006 | 1,843 | 2,413 |
| 55 | 4,126 | 4,260 | 3,247 | 3,678 | 3,134 | 3,235 | 2,466 | 2,793 |
| 60 | 4,900 | 4,591 | 4,347 | 4,265 | 3,722 | 3,487 | 3,302 | 3,240 |
| 64 | 5,621 | 4,871 | 5,487 | 4,801 | 4,270 | 3,700 | 4,168 | 3,647 |
| 65 | 5,819 | 4,946 | 5,819 | 4,946 | 4,420 | 3,757 | 4,420 | 3,757 |
| 70 | 6,744 | 5,330 | 6,744 | 5,330 | 5,123 | 4,049 | 5,123 | 4,049 |
| 75 | 7,268 | 5,738 | 7,268 | 5,738 | 5,521 | 4,358 | 5,521 | 4,358 |
| 80 | 7,827 | 6,186 | 7,827 | 6,186 | 5,945 | 4,698 | 5,945 | 4,698 |

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

Medicare Advantage Plans \$3,056

Medicare Part B Premium for current retirees \$1,178

Health Care Cost Trend Rates: Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years. The rates shown below are “net” and are applied to the net per capita costs shown above. The trend shown for a particular plan year is the rate that must be applied to that year’s cost to yield the next year’s projected cost.

| Year Ending June 30, | Medical | Medicare Part B |
|---------------------------------|----------------|------------------------|
| 2012 | 9.00% | 6.00% |
| 2013 | 8.50% | 6.00% |
| 2014 | 8.00% | 6.00% |
| 2015 | 7.50% | 6.00% |
| 2016 | 7.00% | 6.00% |
| 2017 | 6.50% | 6.00% |
| 2018 | 6.00% | 6.00% |
| 2019 | 5.50% | 6.00% |
| 2020 and later | 5.00% | 6.00% |

Retiree Contribution Increase Rate: Retiree contributions for medical and prescription drug coverage are expected to increase with medical trend.

Administrative Expenses: An administrative expense load of \$504 per participant for self-insured non-Medicare and \$291 per participant for self-insured Medicare plans increasing at 3.0% per year was added for projected incurred self-insured claim costs in developing the benefit obligations. Administrative expenses are assumed to be included in the fully insured premium rates.

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

- Participation and Coverage Election:** 100% of active employees with coverage are assumed to elect retiree coverage.
- 100% of future retirees who retire before age 65 are assumed to continue coverage in their current plan, either an insured plan or a self-funded Blue Cross Blue Shield plan.
- 100% of retirees over age 65 enrolled in a Medicare plan are assumed to remain in their current medical plan for life. As a result of the revisions to Section 18A of Chapter 32B, 80% of retirees over the age of 65 currently enrolled in a non-Medicare plan, current retirees under the age of 65, and future retirees hired before 1986 are assumed to be Medicare eligible and to enroll in a Medicare plan effective July 1, 2012 (65% in the Blue Cross Master Medical Carveout Plan, 10% in one of the insured Medicare Supplement plans, and 5% in one of the insured Medicare Advantage plans). 20% of retirees over the age of 65 currently enrolled in a non-Medicare plan, current retirees under the age of 65, and future retirees hired before 1986 are assumed to be ineligible for Medicare and to either remain in their current or pre-65 plan (15% in the insured non-Medicare Plans and 5% in the Blue Choice and Blue Care Elect Preferred Plans). Prior to July 1, 2012, 55% of these current or future retirees were assumed to be eligible for Medicare and 45% were assumed to be ineligible for or elect out of Medicare.
- For all future retirees hired after 1986, 80% are assumed to enroll in the Blue Cross Master Medical Carveout Plan upon reaching age 65, 10% are assumed to enroll in one of the insured Medicare Supplement plans, and 5% are assumed to enroll in one of the insured Medicare Advantage plans.
- Plan Design:** Development of plan liabilities was based on the substantive plan of benefits in effect as described in Exhibit III.
- 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.
- Missing Participant Data:** A missing census item for a given participant was assumed to equal the average value of that item over all other participants of the same status for whom the item is known.

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

Health Care Reform Assumption: The Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act (HCERA) of 2010 creates a temporary reinsurance program for eligible health care coverage for pre-Medicare retirees over age 55. The program will reimburse the plan sponsor for 80% of the retiree claims between \$15,000 and \$90,000. Due to the short nature of this program, the limited financing, and uncertainty of qualifying and receiving payment (the program will be on a first come first served basis until financing runs out), we have not reflected the value of this program in the valuation. Additional provisions of these Acts that may affect retiree health benefits in the future have not been reflected.

**Assumption Changes
Since Prior Valuation:**

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

The future over-65 enrollment assumption was revised as a result of the revisions to Section 18A of Chapter 32B.

The trend assumption was revised.

The mortality assumption for healthy lives was changed from the RP-2000 Combined Healthy Mortality Table to the RP-2000 Combined Healthy Mortality Table projected 11 years with Scale AA (gender distinct).

The mortality assumption for disabled lives was changed from RP-2000 Combined Healthy Mortality Table set forward five years to the RP-2000 Combined Healthy Mortality Table projected 11 years with Scale AA (gender distinct) set forward five years.

The discount rate was increased from 5.25% to 7.25% for the City and to 5.75% for the Public Health Commission based on the City's and the Public Health Commission's policies to partially fund the benefits.

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

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 State-Boston 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 with at least 10 years of creditable service are eligible at age 45;
- 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 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. Note that “direct pay” surviving spouses (those not receiving an Option C benefit) pay 50% of the premium cost for coverage.

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

| | |
|---------------------------------|---|
| Benefit Types: | Medical and prescription drug benefits are provided to all eligible retirees not enrolled in Medicare through a variety of plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim HealthCare, and Neighborhood Health Plan. Medical and prescription drug benefits are provided to retirees enrolled in Medicare through supplemental and Medicare Advantage plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim HealthCare, and Tufts Health Plan. The City of Boston also pays 50% of the retiree life insurance premium and reimburses retirees 50% of their Medicare Part B premium. |
| Medicare Part B Penalty: | Penalty is estimated for the retirees assumed to be effected by the revised Section 18A of Chapter 32B. |
| 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. |

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

Retiree Contributions:

Premium rates and retiree contributions as of July 1, 2011 are summarized on the following pages.

| | Subscribers | | | Monthly Premium (Effective 7/1/2011) | City cost (\$) | Retiree cost (\$) | Retiree cost (%) |
|---|---------------|--------------|---------------|---|----------------|-------------------|------------------|
| | Active | Retiree* | Total | | | | |
| <u>Non-Medicare Actives and Retirees</u> | | | | | | | |
| BCBS Master Medical Indemnity | | | | | | | |
| Individual | 0 | 841 | 841 | \$1,400.69 | \$1,050.53 | \$350.16 | 25.00% |
| Family | 0 | 208 | 208 | \$3,249.60 | \$2,437.20 | \$812.40 | 25.00% |
| Harvard Pilgrim HMO | | | | | | | |
| Individual | 4,902 | 1,909 | 6,811 | \$671.60 | \$562.48 | \$109.12 | 16.25% |
| Family | 6,746 | 2,049 | 8,795 | \$1,806.51 | \$1,512.95 | \$293.56 | 16.25% |
| Neighborhood Health Plan HMO | | | | | | | |
| Individual | 774 | 162 | 936 | \$630.67 | \$528.21 | \$102.46 | 16.25% |
| Family | 839 | 97 | 936 | \$1,671.32 | \$1,399.72 | \$271.60 | 16.25% |
| BMC Advantage HMO | | | | | | | |
| Individual | 49 | 2 | 51 | \$671.60 | \$562.48 | \$109.12 | 16.25% |
| Family | 13 | 2 | 15 | \$1,806.51 | \$1,512.95 | \$293.56 | 16.25% |
| BCBS Blue Choice POS | | | | | | | |
| Individual | 370 | 260 | 630 | \$777.28 | \$573.24 | \$204.04 | 26.25% |
| Family | 308 | 169 | 477 | \$2,005.38 | \$1,478.98 | \$526.40 | 26.25% |
| Harvard Pilgrim POS | | | | | | | |
| Individual | 572 | 188 | 760 | \$716.18 | \$563.98 | \$152.20 | 21.25% |
| Family | 555 | 160 | 715 | \$1,926.50 | \$1,517.10 | \$409.40 | 21.25% |
| BCBS Blue Care Elect Preferred PPO | | | | | | | |
| Individual | 223 | 202 | 425 | \$1,080.99 | \$797.23 | \$283.76 | 26.25% |
| Family | 185 | 120 | 305 | \$2,507.90 | \$1,849.58 | \$658.32 | 26.25% |
| <u>Non-Medicare Total</u> | 15,536 | 6,369 | 21,905 | | | | |

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

| | | | | Monthly Premium (Effective 7/1/2011) | City cost (\$) | Retiree cost (\$) | Retiree cost (%) |
|---|---------------|---------------|-------|---|-----------------------|--------------------------|-------------------------|
| <u>Medicare</u> | | | | | | | |
| BCBS Master Medical Part A Carveout | 0 | 77 | 77 | \$1,400.69 | \$1,050.53 | \$350.16 | 25.0% |
| BCBS Master Medical Part A&B Carveout | 1 | 3,223 | 3,224 | \$447.51 | \$335.63 | \$111.88 | 25.0% |
| <u>Medicare Supplement Plans</u> | | | | | | | |
| BCBS Managed Blue for Seniors | 0 | 159 | 159 | \$375.29 | \$337.76 | \$37.53 | 10.0% |
| Tufts Medicare Complement** | 0 | 192 | 192 | \$418.00 | \$376.20 | \$41.80 | 10.0% |
| <u>Medicare Advantage Plans</u> | | | | | | | |
| Medicare HMO Blue** | 0 | 50 | 50 | \$349.17 | \$314.25 | \$34.92 | 10.0% |
| Harvard Pilgrim Medicare Enhance | 0 | 62 | 62 | \$375.00 | \$337.50 | \$37.50 | 10.0% |
| Tufts Medicare Preferred HMO** | 0 | 178 | 178 | \$242.00 | \$217.80 | \$24.20 | 10.0% |
| <u>Total</u> | 15,537 | 10,310 | | | | | |

* In addition, there are 3,924 spouses of retirees covered under an individual or family policy.

** Monthly premium rate is effective January 1, 2011.

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

Benefit Descriptions:

| | |
|--------------------------------------|---|
| Harvard Pilgrim HMO | |
| Medical | |
| <i>Annual deductible</i> | None |
| <i>Coinsurance</i> | 100% |
| <i>Physicians Office Visit Copay</i> | \$15 PCP/\$25 specialist |
| <i>Emergency Room Copay</i> | \$100 |
| <i>Maximum Out-Of-Pocket Expense</i> | None |
| <i>Lifetime Maximum</i> | None |
| Prescription Drugs | |
| <i>Retail Copay</i> | \$10 generic/\$25 brand formulary/\$45 brand non-formulary |
| <i>Mail Copay</i> | \$20 generic/\$50 brand formulary/\$100 brand non-formulary |
| Neighborhood Health Plan HMO | |
| Medical | |
| <i>Annual deductible</i> | None |
| <i>Coinsurance</i> | 100% |
| <i>Physicians Office Visit Copay</i> | \$15 PCP/\$25 specialist |
| <i>Emergency Room Copay</i> | \$100 |
| <i>Maximum Out-Of-Pocket Expense</i> | None |
| <i>Lifetime Maximum</i> | None |
| Prescription Drugs | |
| <i>Retail Copay</i> | \$10 generic/\$25 brand formulary/\$45 brand non-formulary |
| <i>Mail Copay</i> | \$20 generic/\$50 brand formulary/\$100 brand non-formulary |

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

| Boston Medical Center Advantage HMO | BMC Advantage Network | HPHC Provider Network |
|---|---|---|
| Medical | | |
| <i>Annual deductible</i> | | None |
| <i>Coinsurance</i> | | 100% |
| <i>Physicians Office Visit Copay</i> | \$15 | \$25 |
| <i>Emergency Room Copay</i> | | \$100 |
| <i>Maximum Out-Of-Pocket Expense</i> | \$2,000 individual/\$4,000 family | |
| <i>Lifetime Maximum</i> | None | |
| Prescription Drugs | | |
| <i>Retail Copay</i> | \$10 generic/\$25 brand formulary/\$45 brand non-formulary | |
| <i>Mail Copay</i> | \$20 generic/\$50 brand formulary/\$100 brand non-formulary | |
| Blue Cross Blue Shield Blue Choice POS | In-Network | Out-Of-Network |
| Medical | | |
| <i>Annual deductible</i> | None | \$50 individual/\$100 family |
| <i>Coinsurance</i> | 100% | 80% |
| <i>Physicians Office Visit Copay</i> | \$15 PCP/\$25 specialist | Coinsurance & deductible |
| <i>Emergency Room Copay</i> | \$100 | \$100 |
| <i>Maximum Out-Of-Pocket Expense</i> | None | \$2,500 individual/\$5,000 family (including deductible) |
| <i>Lifetime Maximum</i> | None | \$1,000,000 |
| Prescription Drugs | | |
| <i>Retail Copay</i> | \$10 generic/\$25 brand formulary/\$45 brand non-formulary | |
| <i>Mail Copay</i> | \$20 generic/\$50 brand formulary/\$100 brand non-formulary | |

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

| Harvard Pilgrim POS | In-Network | Out-Of-Network |
|--------------------------------------|---|---|
| Medical | | |
| <i>Annual deductible</i> | None | \$200 individual/\$400 family |
| <i>Coinsurance</i> | 100% | 80% |
| <i>Physicians Office Visit Copay</i> | \$15 PCP/\$25 specialist | Coinsurance & deductible |
| <i>Emergency Room Copay</i> | \$10 | \$100 |
| <i>Maximum Out-Of-Pocket Expense</i> | None | \$1,700 individual/\$3,400 family (including deductible) |
| <i>Lifetime Maximum</i> | None | None |
| Prescription Drugs | | |
| <i>Retail Copay</i> | \$10 generic/\$25 brand formulary/\$45 brand non-formulary | |
| <i>Mail Copay</i> | \$20 generic/\$50 brand formulary/\$100 brand non-formulary | |

| Blue Cross Blue Shield Blue Care Elect Preferred PPO | In-Network | Out-Of-Network |
|---|---|---|
| Medical | | |
| <i>Annual deductible</i> | None | \$250 individual/\$500 family |
| <i>Coinsurance</i> | 100% | 80% |
| <i>Physicians Office Visit Copay</i> | \$20 | Coinsurance & deductible |
| <i>Emergency Room Copay</i> | \$100 | \$100 |
| <i>Maximum Out-Of-Pocket Expense</i> | None | \$1,250 individual/\$2,500 family (including deductible) |
| <i>Lifetime Maximum</i> | None | None |
| Prescription Drugs | | |
| <i>Retail Copay</i> | \$10 generic/\$25 brand formulary/\$45 brand non-formulary | |
| <i>Mail Copay</i> | \$20 generic/\$50 brand formulary/\$100 brand non-formulary | |

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

| | |
|---|---|
| <p>Blue Cross Blue Shield Master Medical Indemnity (Medicare Carve-outs)</p> | |
| <p>Medical <i>Annual deductible</i> <i>Coinsurance</i> <i>Physicians Office Visit</i> <i>Emergency Room</i> <i>Maximum Out-Of-Pocket Expense</i> <i>Lifetime Maximum</i></p> | <p>\$50 individual/\$100 family (Extended Benefits only) 100% (80% Extended Benefits) Coinsurance & deductible Covered in full None \$250,000/individual (Extended Benefits only)</p> |
| <p>Prescription Drugs <i>Retail Copay</i> <i>Mail Copay</i></p> | <p>80% coinsurance (no deductible), with calendar year coinsurance maximum of \$200 per individual/\$400 per family \$5 generic/\$10 brand</p> |
| <p>Blue Cross Blue Shield Managed Blue for Seniors</p> | |
| <p>Medical <i>Hospital Inpatient</i> <i>Outpatient and Physician Services</i> <i>Emergency Room</i></p> | <p>Covered in full \$10 copay per visit \$50 copay per visit</p> |
| <p>Prescription Drugs <i>Retail Copay</i> <i>Mail Copay</i></p> | <p>25% generic/50% brand formulary/75% brand non-formulary \$5 generic/\$30 brand formulary/\$50 brand non-formulary</p> |

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

| | |
|---|--|
| Medicare HMO Blue | |
| Medical | |
| <i>Hospital Inpatient</i> | \$150 copay per day (up to a maximum of \$750 per year) |
| <i>Office Visits</i> | \$15 copay per visit (\$30 for specialists) |
| <i>Emergency Room</i> | \$50 copay per visit |
| Prescription Drugs | |
| <i>Retail Copay</i> | \$10 generic/\$25 preferred brand/\$45 non-preferred brand |
| <i>Mail Copay</i> | \$20 generic/\$50 preferred brand/\$90 non-preferred brand |
| Harvard Pilgrim Medicare Enhance | |
| Medical | |
| <i>Hospital Inpatient</i> | Covered in full |
| <i>Office Visits</i> | \$15 copay per visit |
| <i>Emergency Room</i> | \$50 copay per visit |
| Prescription Drugs | |
| <i>Retail Copay</i> | \$10 Tier 1/\$20 Tier 2/\$35 Tier 3 |
| <i>Mail Copay</i> | \$20 Tier 1/\$40 Tier 2/\$105 Tier 3 |

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

| | |
|--|---|
| Tufts Medicare Complement | |
| Medical | |
| <i>Hospital Inpatient</i> | Covered in full |
| <i>Outpatient and Physician Services</i> | \$10 per visit |
| <i>Emergency Room</i> | \$50 per visit |
| Prescription Drugs | |
| <i>Retail Copay</i> | \$5 Tier 1/\$10 Tier 2/\$25 Tier 3 |
| <i>Mail Copay</i> | \$10 Tier 1/\$20 Tier 2/\$75 Tier 3 |
| Tufts Medicare Preferred HMO | |
| Medical | |
| <i>Hospital Inpatient</i> | \$200 deductible |
| <i>Outpatient and Physician Services</i> | \$10 copay per visit (\$15 for specialists) |
| <i>Emergency Room</i> | \$50 per visit |
| Prescription Drugs | |
| <i>Retail Copay</i> | \$10 Tier 1/\$25 Tier 2/\$50 Tier 3 |
| <i>Mail Copay</i> | \$20 Tier 1/\$50 Tier 2/\$100 Tier 3 |

Retiree Life: \$5,000

SECTION 4: Supporting Information for the City of Boston June 30, 2011 Measurement under GASB

Plan Changes Since the Prior Valuation:

- Effective July 1, 2011, retirees will pay an additional 1.25% of the premium cost for all non-Medicare plans. The new percentages are shown in this exhibit.
- Effective January 1, 2012, the non-Medicare Master Medical plan will no longer be offered to retirees.
- Effective July 1, 2012, retirees will pay an additional 1.25% of the premium for all non-Medicare plans.
- Effective July 1, 2012, the copays for office visits, emergency room visits, and prescription drugs for all non-Medicare plans were increased to the level shown in this exhibit.
- Effective July 1, 2012, all Medicare eligible retirees over age 65 currently enrolled in non-Medicare plans will be required to enroll in Medicare plans due to revisions to Section 18A of Chapter 32B.
- Effective July 1, 2015, retirees will pay an additional 1% of the premium cost for all Medicare plans.

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