

**JUNE 30, 2014
ACTUARIAL VALUATION OF
THE POST RETIREMENT BENEFITS PLAN
OF
THE TOWN OF DUXBURY**



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SECTION I - OVERVIEW

The Town of Duxbury has engaged Sherman Actuarial Services, LLC (SAS) to prepare an actuarial valuation of their post-retirement benefits program as of June 30, 2014. This valuation was performed using employee census data, enrollment data, claims, premiums, participant contributions and plan provision information provided by personnel of the Town of Duxbury. SAS did not audit these data, although they were reviewed for reasonableness. The results of the valuation are dependent on the accuracy of the data.

The purposes of the valuation are to analyze the current funded position of the Town's post-retirement benefits program, determine the level of contributions necessary to assure sound funding and provide reporting and disclosure information for financial statements, governmental agencies and other interested parties. This valuation report contains information required by the Governmental Accounting Standards Board's Statements Nos. 43 and 45, respectively entitled "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" and "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."

This report is based on the participant data as of January 1, 2014, the plan provisions, and the health plans offered as of June 30, 2014.

According to GASB principles, if the benefits are not prefunded, the rate earned by the General Asset Account over long term must be used to select the discount rate used to measure the plan. To measure on that basis we have used a discount rate of 4.0%. The 4.0% scenario figures were reflected in the Town's financial statements based on the Town's current Pay-as-You-Go funding approach through FYE13. If the Town were to commence funding the Annual Required Contribution instead of just paying benefits when due as it has in the past, the measurement would be based on a 7.5% discount rate.

The Town has started partially prefunding the obligation. Under GASB rules, partial prefunding requires the determination of the discount rate by prorating the difference between fully prefunding (7.5%) and no prefunding (4.0%). Based on the expressed expectation to fund at least \$300,000 per year, we determined that a 6% discount rate was reasonable for the 2014 actuarial valuation and the Town financial statements.

Section II provides a summary of the principal valuation results. Section VII provides a projection of funding amounts.

While the actuary believes that the assumptions are reasonable for financial reporting purposes, it should be understood that there is a range of assumptions that could be deemed reasonable that would yield different results. Moreover, while the actuary considers the assumption set to be reasonable based on prior plan experience, it should be understood that future plan experience may differ considerably from what has been assumed.

The report 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 twenty years of performing FAS 106 valuations of similar complexity, Mr. Sherman is qualified by experience in retiree medical valuation. Daniel Sherman has met the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

The costs and actuarial exhibits presented in this report have been prepared in accordance with Generally Accepted Accounting Practices and the requirements of GASB 45. I am available to answer questions about this report.

Respectfully Submitted,

SHERMAN ACTUARIAL SERVICES, LLC



Daniel Sherman, ASA, MAAA, EA

September 19, 2014

Date

SECTION II - REQUIRED INFORMATION

	<u>Full Prefunding</u>	<u>Partial Prefunding</u>	
	7.50%	6.00%	
	June 30, 2014	June 30, 2014	Difference
a) Actuarial valuation date	June 30, 2014	June 30, 2014	Difference
b) Actuarial Value of Assets	\$ 712,978	\$ 712,978	\$ 0
c) Actuarial Accrued Liability			
Active participants	\$ 11,586,585	\$ 23,887,236	\$ 12,300,651
Retired participants	18,714,011	21,502,440	2,788,429
Total AAL	\$ 30,300,596	\$ 45,389,676	\$ 15,089,080
d) Unfunded Actuarial Liability "UAL" [c - b]	\$ 29,587,618	\$ 44,676,698	\$ 15,089,080
e) Funded ratio [b / c]	2.4%	1.6%	-0.8%
f) Annual covered payroll	\$ 39,817,927	\$ 39,817,927	
g) UAL as percentage of covered payroll	74.3%	112.2%	
h) Normal Cost for fiscal year 2014	\$ 599,262	\$ 1,422,922	\$ 823,660
i) Amortization of UAL for fiscal year 2014 *	\$ 1,666,678	\$ 2,124,743	\$ 458,065
j) Interest to the end of the fiscal year	\$ 0	\$ 0	\$ 0
k) Annual Required Contribution "ARC" for fiscal year 2014 [h + i + j]	\$ 2,265,940	\$ 3,547,665	\$ 1,281,725
l) Expected claims payments	\$ 1,751,897	\$ 1,751,897	\$ 0

* 30-year amortization, open, increasing 3.25% per year

SECTION III - MEDICAL PREMIUMS**Monthly Premiums effective June 30, 2014**

Health benefits are available to employees and retirees through a number of plans. Retirees contribute 50% of the costs of the plan elected for all plans. The following are gross monthly rates per subscriber for plans in which current Town retirees are enrolled:

	<u>Individual</u>	<u>Family</u>
HMO	627.24	1,568.60
Blue Care Elect PPO	759.20	1,899.04

Medicare Supplemental Plans

Medex	396.00
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SECTION IV – BREAKOUTS

	Town	Water	School	Pool	Total
Actives	178	9	467	2	656
Retirees and Beneficiaries	212	4	271	-	487
Total	390	13	738	2	1,143

Accrued Liability @ 7.50%

Active	6,645,131	220,482	4,704,683	16,289	11,586,585
Retired	8,396,751	160,241	10,157,019	-	18,714,011
Total	15,041,882	380,723	14,861,702	16,289	30,300,596
Assets	353,937.95	8,958.47	349,698.29	383.28	712,978
Unfunded Liability	14,687,944	371,765	14,512,004	15,906	29,587,618

Annual Required Contribution FYE 2014

Normal Cost	278,993	15,719	302,191	2,359	599,262
Amortization of UAL	827,376	20,942	817,465	896	1,666,679
Total	1,106,369	36,661	1,119,656	3,255	2,265,941

Claims Cost	764,460	16,305	971,132	-	1,751,897
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Annual Required Contribution FYE 2015

Normal Cost with interest	291,548	16,426	315,790	2,465	626,229
Amortization of UAL with interest	854,266	21,623	844,033	925	1,720,847
Total	1,145,814	38,049	1,159,823	3,390	2,347,076

Accrued Liability @ 6.00%

Active	8,595,582	297,783	14,965,883	27,988	23,887,236
Retired	9,626,124	182,136	11,694,180	-	21,502,440
Total	18,221,706	479,919	26,660,063	27,988	45,389,676
Assets	286,225.34	7,538.54	418,774.49	439.63	712,978
Unfunded Liability	17,935,481	472,380	26,241,289	27,548	44,676,698

Annual Required Contribution FYE 2014

Normal Cost	386,652	22,675	1,009,532	4,063	1,422,922
Amortization of UAL	852,979	22,466	1,247,988	1,310	2,124,743
Total	1,239,631	45,141	2,257,520	5,373	3,547,665

Claims Cost	764,460	16,305	971,132	-	1,751,897
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Annual Required Contribution FYE 2015

Normal Cost with interest	404,051	23,695	1,054,960	4,246	1,486,952
Amortization of UAL with interest	896,828	23,621	1,312,143	1,377	2,233,969
Total	1,300,879	47,316	2,367,103	5,623	3,720,921

SECTION V - REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b) - (a) Unfunded AAL (UAL)	(a) / (b) Funded Ratio	Covered Payroll	[(b)-(a)] / (c) UAL as Percentage of Covered Payroll
7/1/2007	0	86,336,643	86,336,643	0.00%	33,452,281	258.09%
7/1/2009	0	66,675,309	66,675,309	0.00%	36,043,157	184.99%
6/30/2012	0	87,999,907	87,999,907	0.00%	37,469,000	234.86%
6/30/2014	712,978	45,389,676	44,676,698	1.57%	39,817,927	112.20%

As of June 30, 2014, the discount rate was changed to 6.0%.

SECTION VI - NET OPEB OBLIGATION

GASB Statement No. 45 requires the development of Annual OPEB Cost and Net OPEB Obligation (NOO). This development is shown in the following table.

Annual Net OPEB Obligations

Year Ending June 30	(a) Annual Required Contribution	(b) Interest on NOO	(c) Amortization of NOO	(d) Annual OPEB Cost (a)+(b)-(c)	(e) Contribution	(f) Change in NOO (d)-(e)	(g) NOO Balance
2011	8,969,817	n/a	n/a	6,488,000	n/a	n/a	15,555,000
2012	9,577,352	n/a	n/a	7,671,000	n/a	n/a	20,956,000
2013	8,203,000	839,000	881,000	8,161,000	2,440,000	5,732,000	26,688,000
2014	3,547,665	1,601,280	1,269,233	3,879,712	2,388,097	1,491,615	28,179,615

Discount rate was changed from 4% to 6% starting with FYE14.

SECTION VII - SCHEDULE OF EMPLOYER CONTRIBUTIONS

The Government Accounting Standards Board's Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" outlines various requirements of a funding schedule that will amortize the unfunded actuarial liability and cover normal costs. Amortization of the unfunded actuarial liability is to be based on a schedule that extends no longer than 30 years. The contribution towards the amortization of the unfunded actuarial liability may be made in level payments or in payments increasing at the same rate as salary increases. There is no requirement to actually fund the Annual Required Contribution, however.

In the amortization schedules shown on the following pages, the amortization of the unfunded accrued liability is increasing at 3.25% for 26 years. The normal cost is expected to increase at the same rate as the assumed ultimate health care trend rate. The contributions were computed assuming that the contribution is paid at the end of the fiscal year. Projected benefit payments/employer contributions reflect only the benefit for those individuals now employed or retired, not any future entrants.

Paragraph 12 of GASB 45 stipulates that valuations must be performed at least biennially. The following projections are intended only to illustrate long-term implications of Prefunding versus Pay-as-You-Go.

SECTION VI - SCHEDULE OF EMPLOYER CONTRIBUTIONS

Partially Prefunding Basis (6.00%)

Fiscal Year		Amortization		Estimated
<u>Ending In</u>	<u>Normal Cost</u>	<u>of UAL</u>	<u>ARC*</u>	<u>Claims Cost</u>
2014	1,422,922	2,124,743	3,547,665	1,751,897
2015	1,486,953	2,233,969	3,720,922	1,903,812
2016	1,553,866	2,345,967	3,899,833	2,049,939
2017	1,623,790	2,461,786	4,085,576	2,181,116
2018	1,696,861	2,582,051	4,278,912	2,307,488
2019	1,773,220	2,705,087	4,478,307	2,476,866
2020	1,853,015	2,834,447	4,687,462	2,580,645
2021	1,936,401	2,967,461	4,903,862	2,750,367
2022	2,023,539	3,108,272	5,131,811	2,843,862
2023	2,114,598	3,259,344	5,373,942	2,900,577
2024	2,209,755	3,414,698	5,624,453	3,096,240
2025	2,309,194	3,577,129	5,886,323	3,244,429
2026	2,413,108	3,748,822	6,161,930	3,361,313
2027	2,521,698	3,930,361	6,452,059	3,482,409
2028	2,635,174	4,122,370	6,757,544	3,607,867
2029	2,753,757	4,325,513	7,079,270	3,737,845
2030	2,877,676	4,540,499	7,418,175	3,872,505
2031	3,007,171	4,768,080	7,775,251	4,012,017
2032	3,142,494	5,009,061	8,151,555	4,156,555
2033	3,283,906	5,264,298	8,548,204	4,306,299
2034	3,431,682	5,534,702	8,966,384	4,461,439
2035	3,586,108	5,821,245	9,407,353	4,622,168
2036	3,747,483	6,124,963	9,872,446	4,788,687
2037	3,916,120	6,446,957	10,363,077	4,961,205
2038	4,092,345	6,788,404	10,880,749	5,139,939
2039	4,276,501	7,150,554	11,427,055	5,325,111
2040	4,468,944	7,534,742	12,003,686	5,516,955
2041	4,670,046	7,942,386	12,612,432	5,715,710
2042	4,880,198	8,375,001	13,255,199	5,921,625
2043	5,099,807	8,834,198	13,934,005	6,134,959
2044	5,329,298	9,321,693	14,650,991	6,355,979

* Assumes payment is made at the end of the fiscal year.

SECTION VI - SCHEDULE OF EMPLOYER CONTRIBUTIONS

Full Prefunding Basis (7.5%)

Fiscal Year <u>Ending In</u>	<u>Normal Cost</u>	Amortization <u>of UAL</u>	<u>ARC*</u>	Estimated <u>Claims Cost</u>
2014	599,262	1,666,678	2,265,940	1,751,897
2015	626,229	1,720,845	2,347,074	1,903,812
2016	654,409	1,776,772	2,431,181	2,049,939
2017	683,857	1,834,517	2,518,374	2,181,116
2018	714,631	1,894,139	2,608,770	2,307,488
2019	746,789	1,955,699	2,702,488	2,476,866
2020	780,395	2,019,259	2,799,654	2,580,645
2021	815,513	2,084,885	2,900,398	2,750,367
2022	852,211	2,152,644	3,004,855	2,843,862
2023	890,560	2,222,605	3,113,165	2,900,577
2024	930,635	2,294,840	3,225,475	3,096,240
2025	972,514	2,369,422	3,341,936	3,244,429
2026	1,016,277	2,446,428	3,462,705	3,361,313
2027	1,062,009	2,525,937	3,587,946	3,482,409
2028	1,109,799	2,608,030	3,717,829	3,607,867
2029	1,159,740	2,692,791	3,852,531	3,737,845
2030	1,211,928	2,780,307	3,992,235	3,872,505
2031	1,266,465	2,870,667	4,137,132	4,012,017
2032	1,323,456	2,963,964	4,287,420	4,156,555
2033	1,383,012	3,060,293	4,443,305	4,306,299
2034	1,445,248	3,159,753	4,605,001	4,461,439
2035	1,510,284	3,262,445	4,772,729	4,622,168
2036	1,578,247	3,368,474	4,946,721	4,788,687
2037	1,649,268	3,477,949	5,127,217	4,961,205
2038	1,723,485	3,590,982	5,314,467	5,139,939
2039	1,801,042	3,707,689	5,508,731	5,325,111
2040	1,882,089	3,828,189	5,710,278	5,516,955
2041	1,966,783	3,952,605	5,919,388	5,715,710
2042	2,055,288	4,081,065	6,136,353	5,921,625
2043	2,147,776	4,213,700	6,361,476	6,134,959
2044	2,244,426	-	2,244,426	6,355,979

* Assumes payment is made at the end of the fiscal year.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

TOWN OF DUXBURY, ALL GROUPS

Interest: Partial Prefunding: 6.00% per year, net of investment expenses
Full Prefunding: 7.50% per year, net of investment expenses

Actuarial Cost Method: Projected Unit Credit. Benefits are attributed ratably to service from date of hire until full eligibility date. Full eligibility date is assumed to be first eligibility for retiree medical benefits.

Healthcare Cost Trend Rate:

<u>Year</u>	<u>Inflation Rate</u>
2014	6.5%
2015	6.0%
2016	5.5%
2017	5.0%
2018 & after	4.5%

Amortization Period: 30-year level percent of pay assuming 3.25% aggregate annual payroll growth, open basis for Partial Prefunding. The amortization period is 30 years for all future valuations. Under Full Prefunding, a 30-year closed basis was used for the amortization. The amortization period is a specific number of years that is counted from one date, declining to zero with the passage of time.

Age-based Morbidity: Medical costs are adjusted to reflect expected cost increases related to age. The increase in the net costs assumed to be:

<u>Age</u>	<u>Annual Increase Retiree</u>
49 and below	2.6%
50-54	3.2%
55-59	3.4%
60-64	3.7%
65-69	3.2%
70-74	2.4%
75-79	1.8%
80 and over	0.0%

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

TOWN OF DUXBURY, ALL GROUPS

- Participation:*** 75% of future retiree teachers and are assumed to participate in the retiree medical plan, 75% of future non-teacher retirees are expected to participate in the retiree medical plan and 75% of future retirees are expected to elect life insurance.
- Marital Status:*** 80% of male employees and 60% of female employees are assumed to have a covered spouse at retirement. Wives are assumed to be three years younger than their husbands.
- Pre-Age 65 Retirees:*** Current retirees who are under age 65 are assumed to remain in their current medical plan until age 65. Current active employees who are assumed to retire prior to age 65 are valued with an age weighted-average premium. This weighted-average premium is based on the medical plan coverage of current retirees under age 65.
- Post-Age 65 Retirees:*** Current retirees over age 65 remain in their current medical plan until death for purposes of measuring their contributions. It is assumed that future retirees are Medicare eligible. It is furthermore assumed that all current retirees over 65 will participate in the Medicare Supplement plan in the same proportion as current retirees over 65. Per capita costs were developed from the Town developed monthly costs. Amounts to be received in the future for the Medicare Part D Retiree Drug Subsidy are not reflected in the valuation.
- Termination Benefit:*** 75% of current active teachers and 75% of current active non-teachers over age 50 with at least 10 years of service are expected to elect medical coverage starting at age 65.
- Medical Plan Costs:*** The estimated gross per capita incurred claim costs for all retirees and beneficiaries for 2014-15 at age 64 and 65 are \$12,920 and \$4,268, respectively. Medicare eligible retirees' per capita claims costs at age 65 is \$3,663.
- It is assumed that future retirees participate in the same manner as current retirees. Employee cost sharing is based on current rates. The cost sharing varies by medical plan. Future cost sharing is based on the weighted average of the current cost sharing of retirees and beneficiaries.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

TOWN OF DUXBURY, GROUPS 1 AND 2 (NON-TEACHERS)

SEPARATIONS FROM ACTIVE SERVICE: Representative values of the assumed annual rates of withdrawal and vesting, disability, death and service retirement are as follows:

Age	Disability	Service Retirement		Years of Service	Rates of Withdrawal
		Male	Female		
25	0.0002			0	0.150
30	0.0003			1	0.120
35	0.0006			2	0.100
40	0.0010			3	0.090
45	0.0015			4	0.080
50	0.0019	0.010	0.015	5	0.076
55	0.0024	0.020	0.055	10	0.054
60	0.0028	0.120	0.050	15	0.033
62	0.0030	0.300	0.150	20	0.020
65	0.0030	0.400	0.150	25	0.010
69		0.300	0.200	30+	0.000

Mortality: 2011 IRS Static Mortality. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 2 years is used.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

TOWN OF DUXBURY, GROUPS 1 AND 2 (TEACHERS)

SEPARATIONS FROM ACTIVE SERVICE: Representative values of the assumed annual rates of withdrawal and vesting, disability, death and service retirement are as follows:

Age	Disability	Years of Service	Rates of Withdrawal
25	0.0002	0	0.150
30	0.0003	1	0.120
35	0.0006	2	0.100
40	0.0010	3	0.090
45	0.0015	4	0.080
50	0.0019	5	0.076
55	0.0024	10	0.054
60	0.0028	15	0.033
62	0.0030	20	0.020
65	0.0030	25	0.010
69		30+	0.000

Age	Male Service Retirement		Female Service Retirement	
	<20	20+	<20	20+
50	0.00	0.01	0.00	0.01
55	0.02	0.03	0.02	0.04
60	0.12	0.20	0.12	0.16
61	0.15	0.30	0.15	0.20
62	0.18	0.35	0.18	0.25
63	0.15	0.35	0.15	0.25
64	0.25	0.30	0.25	0.30
65	0.40	0.50	0.40	0.40
66	0.40	0.30	0.40	0.30
67	0.40	0.30	0.40	0.25
68	0.40	0.30	0.40	0.35
69	0.40	0.40	0.40	0.35
70	1.00	1.00	1.00	1.00

Teachers electing the increased benefit under Chapter 114 of the Acts of 2000 were assumed to have higher rates of retirement from ages 54 to 62 if their service was greater than 30 years. These rates are the same for males and females. The rate at age 54 is 0.035. The rate increases to 0.06 at age 55, 0.18 at age 56 and 0.30 at age 57. The rate for ages 58, 59 and 62 is 0.40. The rate for ages 60 and 61 is 0.35.

Mortality: 2011 IRS Static Mortality. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 2 years is used.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

TOWN OF DUXBURY, GROUP 4

SEPARATIONS FROM ACTIVE SERVICE: Representative values of the assumed annual rates of disability, service retirement, and withdrawal are as follows:

Age	Disability	Service Retirements	Years of Service	Rates of Withdrawal
25	0.0020		0	0.015
30	0.0030		1	0.015
35	0.0030		2	0.015
40	0.0030		3	0.015
45	0.0100	0.010	4	0.015
50	0.0125	0.020	5	0.015
55	0.0120	0.015	6	0.015
60	0.0085	0.020	7	0.015
62	0.0075	0.025	8	0.015
65	0.0000	1.000	9	0.015
69			10	0.015
			11+	0.000

Mortality: The RP-2000 Combined Healthy Table. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 2 years is used.

SCHEDULE B - SUMMARY OF PROGRAM PROVISIONS

Retiree Medical Insurance: Participants may select from a variety of plans offered by the Town. Retirees and beneficiaries contribute 50% of the costs of the plan elected.

Life Insurance: The Town of Duxbury provides \$5,000 of Basic Life Insurance. The Town contributes \$1.95 per month for coverage, representing 75% of the total cost.

Spousal Coverage: Current and future retirees may elect to include their spouses as part of their post-retirement benefits. There is lifetime spousal coverage for medical insurance.

Administrative Costs: The Town pays administrative costs for each member of the plan as part of the monthly premium.

Section 18 Coverage: The Town has elected to adopt Section 18 under Chapter 32B of the General Laws of Massachusetts, which requires that an employee or retiree must participate in the Medicare program as the primary payer once one reaches age 65 and is Medicare eligible.

Retirement Eligibility: Age 55 with 10 years of service, or 20 years of service.

Ordinary Disability Eligibility: 10 years of service and under age 55.

Termination Eligibility: 10 years of service.

SCHEDULE C - CONSIDERATIONS OF HEALTH CARE REFORM

Early Retiree Reinsurance Program ("ERRP") - Effective June 1, 2011: Due to the short-term nature of the payments expected to be received under this program, we do not reflect this program in long-term GASB 45 liabilities.

Removal of Lifetime Maximum: The elimination of the lifetime maximums would have no impact on the retiree health plan obligations since, as far as we are aware, the plan has no lifetime maximums.

Medicare Advantage Plans - Effective January 1, 2011: The law provides for reductions to the amounts that would be provided to Medicare Advantage plans starting in 2011. Since the Town does not offer these plans, the reductions would have no impact.

Expansion of Child Coverage to Age 26: Since few retirees cover children on retiree health plans, this provision will likely have a relatively small effect on the gross benefit cost. We have reflected an estimate of the amount of additional cost by assuming a higher healthcare trend rate.

Medicare Part D Subsidy - Shrinking Medicare Prescription Drug "Donut Hole"- Starting January 1, 2011: RDS payments are not reflected as an ongoing offsetting item in GASB 45 valuations, and so no direct impact is reflected. RDS actuarial equivalence testing does not reflect the new donut hole shrinking Part D benefits. Thus, the changes to Medicare Part D have no impact on the calculations.

Excise Tax on High-Cost Employer Health Plans (aka Cadillac Tax) - Effective January 1, 2018: There is considerable uncertainty about how the tax would be applied, and considerable latitude in grouping of participants for tax purposes. We have estimated the impact and included it in the liabilities.

Other: We have not identified any other specific provision of health care reform that would be expected to have a significant impact on the measured obligation. As additional guidance on the legislation is issued, we will continue to monitor any potential impacts.

SCHEDULE D - GLOSSARY OF TERMS

Actuarial Accrued Liability

That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of OPEB benefits and expenses which is not provided for by future Normal Costs and therefore is the value of benefits already earned.

Actuarial assumptions

Assumptions as to the occurrence of future events affecting OPEB costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and Government provided OPEB benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; characteristics of future entrants for Open Group Actuarial Cost Methods; and other relevant items.

Actuarial cost method

A procedure for determining the Actuarial Present Value of OPEB benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.

Actuarial experience gain or loss

A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates, as determined in accordance with a particular Actuarial Cost Method.

Amortization (of unfunded actuarial accrued liability)

That portion of the OPEB plan contribution which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability or the Unfunded Frozen Actuarial Accrued Liability.

Annual OPEB cost

An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.

Annual required contributions of the employer (ARC)

The employer's periodic expense to a defined benefit OPEB plan, calculated in accordance with the parameters. It is the value of the cash contributions for a funded plan and the value of the expense entry in the profit and loss section of the financial statements.

Closed amortization period (closed basis)

A specific number of years that is counted from one date and, therefore, declines to zero with the passage of time. For example, if the amortization period initially is thirty years on a closed basis, twenty-nine years remain after the first year, twenty-eight years after the second year, and so forth. In contrast, an open amortization period (open basis) is one that begins again or is recalculated at each actuarial valuation date. Within a maximum number of years specified by law or policy (for example, thirty years), the period may increase, decrease, or remain stable.

Covered payroll

Annual compensation paid to active employees covered by an OPEB plan. If employees also are covered by a pension plan, the covered payroll should include all elements included in compensation on which contributions to the pension plan are based. For example, if pension contributions are calculated on base pay including overtime, covered payroll includes overtime compensation.

Defined benefit OPEB plan

An OPEB plan having terms that specify the benefits to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based on one or more factors such as age, years of service, and compensation), or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums).

Funded ratio

The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

SCHEDULE D - GLOSSARY OF TERMS

Funding policy

The program for the amounts and timing of contributions to be made by plan members, employer(s), and other contributing entities (for example, state government contributions to a local government plan) to provide the benefits specified by an OPEB plan.

Healthcare cost trend rate

The rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

Investment return assumption (discount rate)

The rate used to adjust a series of future payments to reflect the time value of money.

Level dollar amortization method

The amount to be amortized is divided into equal dollar amounts to be paid over a given number of years; part of each payment is interest and part is principal (similar to a mortgage payment on a building). Because payroll can be expected to increase as a result of inflation, level dollar payments generally represent a decreasing percentage of payroll; in dollars adjusted for inflation, the payments can be expected to decrease over time.

Level percentage of projected payroll amortization method

Amortization payments are calculated so that they are a constant percentage of the projected payroll of active plan members over a given number of years. The dollar amount of the payments generally will increase over time as payroll increases due to inflation; in dollars adjusted for inflation, the payments can be expected to remain level.

Net OPEB Obligation

The cumulative difference since the effective date of this Statement between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt. It will be included as a balance sheet entry on the financial statements.

Normal cost

That portion of the Actuarial Present Value of OPEB benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. It is the value of benefits to be accrued in the valuation year by active employees.

OPEB-related debt

All long-term liabilities of an employer to an OPEB plan, the payment of which is not included in the annual required contributions of a sole or agent employer (ARC) or the actuarially determined required contributions of a cost-sharing employer. Payments generally are made in accordance with installment contracts that usually include interest. Examples include contractually deferred contributions and amounts assessed to an employer upon joining a multiple-employer plan.

Other postemployment benefits

Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, excluding benefits defined as termination offers and benefits.

Pay-as-You-Go

A method of financing an OPEB plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

Required supplementary information (RSI)

Schedules, statistical data, and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity.