

JUNE 30, 2010
POST RETIREMENT BENEFITS ANALYSIS
OF
THE TOWN OF SHREWSBURY

2010 Shrewsbury OPEB report.docx

Town of Shrewsbury
OPEB Analysis Under GASB 43 & 45
June 30, 2010

A Xerox Company

buckconsultants

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SECTION I - OVERVIEW

The Town of Shrewsbury has engaged Buck Consultants to prepare an actuarial valuation of their post-retirement benefits program as of June 30, 2010. The Town provided employee data and premium information.

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 Government 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 Post-employment Benefits Other Than Pensions." Liabilities have been determined based on a 3.5% discount rate. According to GASB principles, if the benefits are not pre-funded, the rate earned by the General Asset Account must be used. To estimate that impact the effect of fully prefunding the obligation, we have used an alternative discount rate of 8.0%.

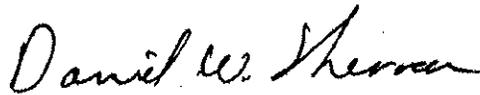
Section II provides a summary of the principal valuation results. Section V provides a projection of funding amounts.

During the last three years, the Plan realized an increase in the accrued liability of \$16,936,944. The expectation was an increase of \$18,917,996. The difference reflects the net effect of Plan experience, which consisted of two main factors: 1) Actual health care cost increases smaller than assumed in the 2007 valuation, which resulted in an actuarial gain. 2) An offsetting actuarial loss resulted from a change in the method used to determine assumed per capita healthcare costs. Assumed per capita costs now reflect the "hidden subsidy" associated with true pre-Medicare retiree healthcare costs that exceed the stated plan premiums. Such subsidies generally occur when plan premium rate reflect blended experience for active employees and pre-Medicare retirees.

Daniel Sherman is an Associate of the Society of Actuaries. He is a Member of the American Academy of Actuaries and meets the Qualification Standards of the Academy to render the actuarial opinions contained herein. This report has been prepared in accordance with all applicable Actuarial Standards of Practice, and we are available to answer questions.

Respectfully Submitted,

BUCK CONSULTANTS, A XEROX COMPANY



February 25, 2011

Daniel Sherman, ASA, MAAA, EA

Date

Director and Consulting Actuary

SECTION II – REQUIRED INFORMATION

	Full prefunding 8%	Pay-as-you-go 3.5%	
	June 30, 2010	June 30, 2010	Difference
a) Actuarial valuation date			
b) Actuarial Value of Assets	\$ 0	\$ 0	\$ 0
c) Actuarial Accrued Liability			
Active participants	\$ 23,071,535	\$ 58,708,128	\$ 35,636,593
Retired participants	19,756,212	31,204,908	11,448,696
Total AAL	\$ 42,827,747	\$ 89,913,036	\$ 47,085,289
d) Unfunded Actuarial Liability "UAL" [c - b]	\$ 42,827,747	\$ 89,913,036	\$ 47,085,289
e) Funded ratio [b / c]	0.0%	0.0%	0.0%
f) Annual covered payroll	\$ 58,901,418	\$ 58,901,418	
g) UAL as percentage of covered payroll	72.7%	152.7%	
h) Normal Cost for fiscal year 2010	\$ 1,555,881	\$ 5,014,900	\$ 3,459,019
i) Amortization of UAL for fiscal year 2010 *	\$ 2,210,793	\$ 2,598,048	\$ 387,255
j) Interest to the middle of the fiscal year	\$ 0	\$ 0	\$ 0
k) Annual Required Contribution "ARC" for fiscal year 2010 [h + i + j]	\$ 3,766,674	\$ 7,612,948	\$ 3,846,274
l) Expected benefit payments	\$ 2,036,526	\$ 2,036,526	\$ 0
m) Increase in annual cost to fund the Plan [k - l]	\$ 1,730,148	N/A	

* 30-year amortization, increasing 4.5% per year

SECTION III - MEMBERSHIP DATA AND MEDICAL PREMIUM

Monthly Premiums effective July 1, 2010

Health benefits are available to employees and retirees through a number of plans.

Plan	Gross Premium	Cost Sharing
BCBS EPO (individual)	\$564.00	60/40
Fallon Senior Plan (individual)	\$238.00	75/25
Fallon Senior Plan (family)	\$476.00	75/25
Fallon Directcare (individual)	\$453.00	80/20
Fallon Directcare (family)	\$1,220.00	80/20
Fallon Selectcare (individual)	\$487.00	75/25
Fallon Selectcare (family)	\$1,312.00	75/25
Harvard Pilgram 1 st Seniority (individual)	\$293.00	75/25
Harvard Pilgram EPO (individual)	\$548.00	60/40
Harvard Pilgram EPO (family)	\$1,429.00	60/40
Harvard Pilgram Medicare Enhanced (individual)	\$406.00	50/50
Harvard Pilgram PPO (individual)	\$1,327.00	50/50
Harvard Pilgram PPO (family)	\$2,948.00	50/50
BCBS Managed Blue (individual)	\$413.23	60/40
BCBS Managed Blue (family)	\$826.46	60/40
Medicare HMO Blue (individual)	\$345.33	65/35
Medex 3 (individual)	\$432.00	50/50
Medex 3 (family)	\$864.00	50/50
Tufts EPO (individual)	\$579.00	60/40
Tufts Medicare Complement (individual)	\$372.00	60/40
Tufts Medicare Complement (family)	\$744.00	60/40

SECTION III - MEMBERSHIP DATA AND MEDICAL PREMIUM

Number of Employees	Public Buildings	Sewer	Water	Electric	CAIV	School	All Others	Total
Actives	22	4	12	35	30	724	204	1,031
Retired	23	3	10	24	3	297	157	517
Total	45	7	22	59	33	1,021	361	1,548

Accrued Liability @ 8%

Active	853,297	151,188	597,390	1,258,879	701,011	14,140,678	5,369,092	23,071,535
Retired	966,808	88,527	289,012	1,024,035	81,199	10,396,880	6,909,751	19,756,212
Total	1,820,105	239,715	886,402	2,282,914	782,210	24,537,558	12,278,843	42,827,747

Annual Required Contribution

Normal Cost with interest	20,531	4,772	2,191	26,753	35,970	1,239,940	225,724	1,555,881
Amortization of UAL with interest	93,955	12,374	45,757	117,845	40,378	1,266,643	633,841	2,210,793
Total	114,486	17,146	47,948	144,598	76,348	2,506,583	859,565	3,766,674
Pay-as-you-go	96,829	9,016	31,658	111,263	13,129	1,103,132	671,499	2,036,526
Difference	17,657	8,130	16,290	33,335	63,219	1,403,451	188,066	1,730,148

Accrued Liability @ 3.5%

Active	1,801,433	371,267	1,345,685	2,814,923	1,698,609	37,733,835	12,942,376	58,708,128
Retired	1,494,020	120,474	426,653	1,569,597	111,722	16,152,122	11,330,320	31,204,908
Total	3,295,453	491,741	1,772,338	4,384,520	1,810,331	53,885,957	24,272,696	89,913,036

Annual Required Contribution

Normal Cost with interest	55,166	14,067	5,982	77,098	118,695	4,009,951	733,941	5,014,900
Amortization of UAL with interest	95,223	14,209	51,212	126,691	52,310	1,557,041	701,362	2,598,048
Total	150,389	28,276	57,194	203,789	171,005	5,566,992	1,435,303	7,612,948
Pay-as-you-go	96,829	9,016	31,658	111,263	13,129	1,103,132	671,499	2,036,526

SECTION IV – REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS - 3.5%

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
July 1, 2007	0	72,976,092	72,976,092	0.00%	52,977,722	137.7%
June 30, 2010	0	89,913,036	89,913,036	0.00%	58,901,418	152.7%

SECTION V – 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.

DEVELOPMENT OF OPEB COST AND NET OPEB OBLIGATION (NOO)

Year Ending June 30	Annual Required Contribution	Interest on NOO	Amortization of NOO	Annual OPEB Cost (1)+(2)-(3)	Actual Contribution	Change in NOO (4)-(5)	NOO Balance
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2009	7,496,726	0	0	7,496,726	2,283,706	5,213,020	5,213,020
2010	7,612,948	182,456	150,631	7,644,773	2,036,526	5,608,247	10,821,267
2011	8,092,952	378,744	312,682	8,159,014			

SECTION VI – 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.

In the amortization schedule shown on the following page, the amortization of the unfunded accrued liability is assumed to increase annually by 4.5%. The normal cost is expected to increase at the same rate as the assumed health care trend rate. The contributions were computed assuming that the contribution is paid at the end of the fiscal year.

SECTION VI – SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ending In	8% Amortization			
	Normal Cost	of UAL	ARC	Pay-as-You-Go
2010	1,555,881	2,210,793	3,766,674	2,036,526
2011	1,633,675	2,310,279	3,943,954	2,236,664
2012	1,715,359	2,414,242	4,129,601	2,324,088
2013	1,801,127	2,522,883	4,324,010	2,500,596
2014	1,891,183	2,636,413	4,527,596	2,698,566
2015	1,985,742	2,755,052	4,740,794	2,896,886
2016	2,085,029	2,879,029	4,964,058	3,023,814
2017	2,189,280	3,008,585	5,197,865	3,246,372
2018	2,298,744	3,143,971	5,442,715	3,508,763
2019	2,413,681	3,285,450	5,699,131	3,662,299
2020	2,534,365	3,433,295	5,967,660	3,845,413
2021	2,661,083	3,587,793	6,248,876	4,037,684
2022	2,794,137	3,749,244	6,543,381	4,239,568
2023	2,933,844	3,917,960	6,851,804	4,451,547
2024	3,080,536	4,094,268	7,174,804	4,674,124
2025	3,234,563	4,278,510	7,513,073	4,907,830
2026	3,396,291	4,471,043	7,867,334	5,153,222
2027	3,566,106	4,672,240	8,238,346	5,410,883
2028	3,744,411	4,882,491	8,626,902	5,681,427
2029	3,931,632	5,102,203	9,033,835	5,965,498
2030	4,128,214	5,331,802	9,460,016	6,263,773
2031	4,334,625	5,571,733	9,906,358	6,576,962
2032	4,551,356	5,822,461	10,373,817	6,905,810
2033	4,778,924	6,084,472	10,863,396	7,251,101
2034	5,017,870	6,358,273	11,376,143	7,613,656
2035	5,268,764	6,644,395	11,913,159	7,994,338
2036	5,532,202	6,943,393	12,475,595	8,394,055
2037	5,808,812	7,255,846	13,064,658	8,813,758
2038	6,099,253	7,582,359	13,681,612	9,254,446
2039	6,404,216	7,923,565	14,327,781	9,717,168
2040	6,724,427	-	6,724,427	10,203,027
2041	7,060,648	-	7,060,648	10,713,178

* The contributions were computed assuming that the contribution is paid at the end of the fiscal year.

SECTION VI – SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year	3.5%			
	<u>Normal Cost</u>	<u>Amortization of UAL</u>	<u>ARC</u>	<u>Pay-as-You-Go</u>
2010	5,014,900	2,598,048	7,612,948	2,036,526
2011	5,265,645	2,827,307	8,092,952	2,236,664
2012	5,528,927	3,019,581	8,548,508	2,324,088
2013	5,805,373	3,223,981	9,029,354	2,500,596
2014	6,095,642	3,438,666	9,534,308	2,698,566
2015	6,400,424	3,663,777	10,064,201	2,896,886
2016	6,720,445	3,900,108	10,620,553	3,023,814
2017	7,056,467	4,150,652	11,207,119	3,246,372
2018	7,409,290	4,413,533	11,822,823	3,508,763
2019	7,779,755	4,688,502	12,468,257	3,662,299
2020	8,168,743	4,979,775	13,148,518	3,845,413
2021	8,577,180	5,287,601	13,864,781	4,037,684
2022	9,006,039	5,612,877	14,618,916	4,239,568
2023	9,456,341	5,956,549	15,412,890	4,451,547
2024	9,929,158	6,319,610	16,248,768	4,674,124
2025	10,425,616	6,703,108	17,128,724	4,907,830
2026	10,946,897	7,108,144	18,055,041	5,153,222
2027	11,494,242	7,535,877	19,030,119	5,410,883
2028	12,068,954	7,987,528	20,056,482	5,681,427
2029	12,672,402	8,464,382	21,136,784	5,965,498
2030	13,306,022	8,967,790	22,273,812	6,263,773
2031	13,971,323	9,499,176	23,470,499	6,576,962
2032	14,669,889	10,060,035	24,729,924	6,905,810
2033	15,403,383	10,651,944	26,055,327	7,251,101
2034	16,173,552	11,276,560	27,450,112	7,613,656
2035	16,982,230	11,935,628	28,917,858	7,994,338
2036	17,831,342	12,630,982	30,462,324	8,394,055
2037	18,722,909	13,364,554	32,087,463	8,813,758
2038	19,659,054	14,138,376	33,797,430	9,254,446
2039	20,642,007	14,954,584	35,596,591	9,717,168
2040	21,674,107	15,815,428	37,489,535	10,203,027
2041	22,757,812	16,723,273	39,481,085	10,713,178

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

TOWN OF SHREWSBURY, ALL GROUPS

Interest Funded: 8.00% per year, net of investment expenses
 Unfunded: 3.50% per year, net of investment expenses

Actuarial Cost Method: Projected Unit Credit

Medical Care Inflation:

<u>Year</u>	<u>Inflation Rate</u>
2010	8.0%
2011	7.5%
2012	7.0%
2013	6.5%
2014	6.0%
2015	5.5%
2016 & after	5.0%

Amortization period: 30-year level percent of pay assuming 4.5% increasing, closed basis for full prefunding. The amortization period is a specific number of years that is counted from one date, declining to zero with the passage of time. Under the pay-as-you-go, a 30-year open basis was used for the amortization. The amortization period is 30 years for all future valuations.

Participation: 75% of future retirees are assumed to participate in the retiree medical plan. 75% of current actives over age 50 with at least 10 years of service are expected to elect medical coverage starting at age 65. 95% of future retirees are expected to elect life insurance.

Medical Plan Costs: It is assumed that future retirees are Medicare eligible. Per capita costs were developed from the Town developed monthly costs.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

TOWN OF SHREWSBURY, ALL GROUPS

- Medical Plan Selection:*** Current retirees who are under age 65 are assumed to remain in their current medical plan until age 65. At age 65, they are assumed to switch to a blend of Medicare plans similar to the current blend of Medicare-eligible retirees.
- Current retirees over age 65 remain in their current medical plan until death.
- Post-65 payments for future retirees: Similar to the pre-65 payments, a weighted average is used, but only Medicare plans are considered because of the adoption of Section 18 of MGL Chapter 32B.
- Spouse's age:*** Husbands are assumed to be 3 years older than their wives.
- Marital status:*** 65% of employees are assumed to have a covered spouse at retirement.
- Age-based Morbidity:*** Per capita costs are adjusted to reflect expected cost increases related to age. The increase in the net incurred claims was assumed to be:

<u>Age</u>	<u>Annual Increase</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

GROUPS 1 AND 2 (NON-TEACHERS)

SEPARATIONS FROM ACTIVE SERVICE: Teacher separations are based on the same rates used by the Massachusetts Teachers Retirement Board. School department participants not in the Shrewsbury Retirement System were assumed to be Teachers.

Representative values of the assumed annual rates of withdrawal and vesting, disability, death and service retirement are as follows for non-Teachers:

Age	Disability	Service Retirement		Years of Service	Rates of Withdrawal
		Male	Female		
25	.0002			0	.150
30	.0003			1	.120
35	.0006			2	.100
40	.0010			3	.090
45	.0015			4	.080
50	.0019	.01	.015	5	.076
55	.0024	.02	.055	10	.054
60	.0028	.12	.050	15	.033
62	.0030	.30	.150	20	.022
65	.0030	.40	.150	25	.010
69		.30	.200	30+	.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 A - ACTUARIAL ASSUMPTIONS AND METHODS
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	.0002	0	.150
30	.0003	1	.120
35	.0006	2	.100
40	.0010	3	.090
45	.0015	4	.080
50	.0019	5	.076
55	.0024	10	.054
60	.0028	15	.033
62	.0030	20	.020
65	.0030	25	.010
69		30+	.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: The RP-2000 Combined Healthy Table with Projection Scale AA until 2007. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 2 years is used.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

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	0.20%		0	15.0%
30	0.30		1	15.0
35	0.30		2	15.0
40	0.30		3	15.0
45	1.00	1.0%	4	15.0
50	1.25	2.0	5	15.0
55	1.20	15.0	6	15.0
60	0.85	20.0	7	15.0
62	0.75	25.0	8	15.0
65	0.00	100.0	9	15.0
69			10	15.0
			11+	0.0

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

- Eligibility:**
- Retirement:** Age 55 with 10 years of service, or 20 years of service. Eligible for immediate commencement of Medical Insurance and Life Insurance benefits.
 - Termination:** Age 50 with 10 years of service. Eligible for deferred commencement of Medical Insurance and Life Insurance benefits at age 65.
 - Disability:** Under age 55 with 10 years of service. Eligible for immediate commencement of Medical Insurance and Life Insurance benefits.
- Benefit Types:**
- Medical Insurance:** Medical and prescription drug benefits are provided to all eligible retirees through a variety of plans as summarized in Section III.
 - Life Insurance:** The Town of Shrewsbury contributes \$4.24 per month for retirees receiving life insurance.
- Duration of Benefits:** Lifetime.
- Dependent Coverage:** Spouse benefits are payable for the lifetime of the spouse.
- MGL Chapter 32B, Section 18A:** All Medicare-eligible retirees and spouses are required to transfer to a Medicare extension plan.
- Retiree Contributions:** Retirees pay a variable portion of their post-retirement medical costs. The percentage varies by plan. Cost sharing for widows is 50%.

SCHEDULE C – CONSIDERATION OF HEALTH CARE REFORM

Summary of Effects of Selected Provisions

Early Retiree Reinsurance Program – Effective 6/1/2010: Due to the short-term nature of the payments expected to be received under this program, there is no impact on long-term GASB 45 liabilities.

Removal of Lifetime Maximum: This does not apply since the current medical plans have no lifetime maximums.

Medicare Advantage Plans - Effective 1/1/2011: The law provides for reductions to the amounts that would be provided to Medicare Advantage plans starting in 2011. Although Shrewsbury has two Medicare Advantage plans, the impact was deemed immaterial.

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 not reflected the impact of this cost.

Medicare Part D Subsidy - Shrinking Medicare Prescription Drug “Donut Hole”- Starting 1/1/2011: RDS payments are not reflected as an ongoing offsetting item in GASB 45 valuations, and so no impact is reflected.

Excise Tax on High-Cost Employer Health Plans (aka Cadillac Tax) - Effective 1/1/2018: There is considerable uncertainty about how the tax would be applied, and considerable latitude in grouping of participants for tax purposes. Based on studies of other plans, the impact is expected to be small, so we have not reflected any additional costs for the potential high cost plan excise tax.

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.

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 a 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.