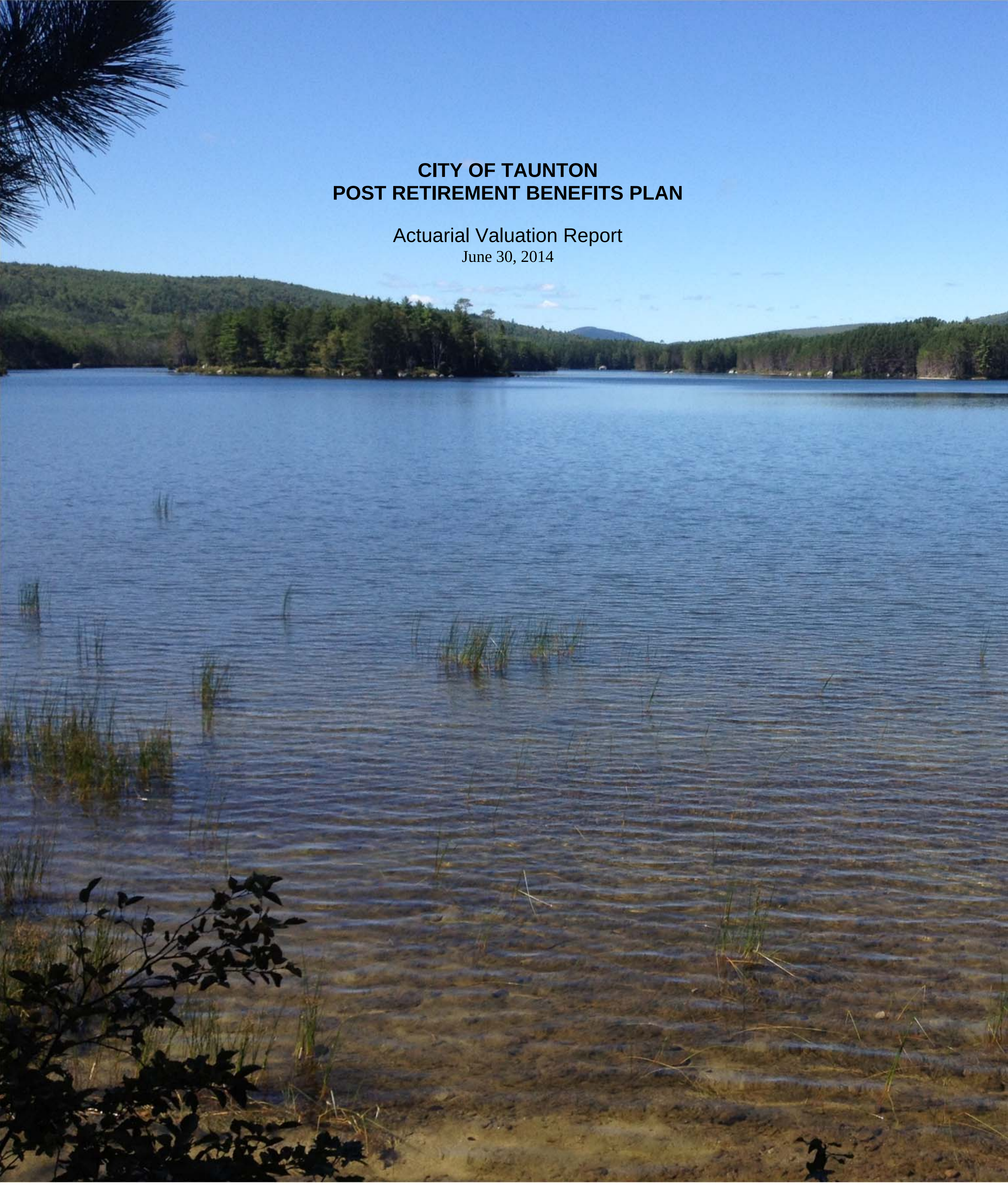

CITY OF TAUNTON
POST RETIREMENT BENEFITS PLAN

Actuarial Valuation Report
June 30, 2014

Sherman Actuarial Services

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SECTION I - OVERVIEW

The City of Taunton has engaged Sherman Actuarial Services, LLC to prepare an actuarial valuation of their post-retirement benefits program as of June 30, 2014. The City provided employee data and premium information. Sherman Actuarial Services did not audit this information although the data were reviewed for reasonableness. The results of the valuation are dependent upon the accuracy of the data.

The purposes of the valuation are to analyze the current funded position of the City'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."

According to GASB principles, if the benefits are not prefunded, the rate earned by the General Asset Account must be used. To measure on that basis we have used a discount rate of 4.0%. The 4.0% scenario figures should be reflected in the City's financial statements based on the City's current pay-as-you-go funding approach. If the City 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 an 8.0% discount rate.

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

Summary of Effects on Selected Provisions of Healthcare Reform

Early Retiree Reinsurance Program ("ERRP") - Effective June 1, 2010: As of this writing, we are not aware that the City has actually filed for this program. Even if they had filed, we would anticipate that any funds collected under ERRP would be treated for GASB 45 purposes similar to the funds collected under the Medicare Part D Retiree Drug Subsidy. Under Technical Bulletin 2006-1, Retiree Drug Subsidy funds are generally not recognized until received by the employer. Thus, we have not included any potential impact of this program on 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 City 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 on 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. The liability and normal cost attributable to the Cadillac tax have been included in the liabilities and costs.

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.

Daniel Sherman is an Associate of the Society of Actuaries, 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 concerning it.

Respectfully Submitted,

SHERMAN ACTUARIAL SERVICES, LLC

Daniel W. Sherman

March 30, 2014

Daniel Sherman, ASA, MAAA, EA	Date
CEO	

SECTION II - REQUIRED INFORMATION

	Pay-as-You-Go 4%	Full Prefunding 8%	
a) Actuarial valuation date	June 30, 2014	June 30, 2014	Difference
b) Actuarial Value of Assets	$ 0	$ 0	$ 0
c) Actuarial Accrued Liability			
Active participants	$ 172,950,910	$ 84,913,644	$ 88,037,266
Retired participants	153,214,553	104,889,173	48,325,380
Total AAL	$ 326,165,463	$ 189,802,817	$ 136,362,646
d) Unfunded Actuarial Liability "UAL" [c - b]	$ 326,165,463	$ 189,802,817	$ 136,362,646
e) Funded ratio [b / c]	0.0%	0.0%	
f) Annual covered payroll	$ 97,480,359	$ 97,480,359	
g) UAL as percentage of covered payroll	334.6%	194.7%	
h) Normal Cost for fiscal year 2014	$ 9,421,736	$ 3,765,447	$ 5,656,289
i) Amortization of UAL for fiscal year 2014*	10,872,182	10,373,238	498,944
j) Interest to the end of the fiscal year	0	0	0
k) Annual Required Contribution "ARC" for fiscal year 2014 [h + i + j]	$ 20,293,918	$ 14,138,685	$ 6,155,233
l) Estimated claims cost	$ 9,591,706	$ 9,591,706	$ 0

* 30-year amortization, increasing 4% per year

SECTION III - MEDICAL PREMIUMS

Monthly Premiums effective July 1, 2014

Health benefits are available to employees and retirees through a number of plans. The plans are bundled to include medical and dental benefits. The City obtains health and dental insurance coverage through the Massachusetts Interlocal Insurance Association ("MIIA"). The MIIA purchases a variety of fully insured plans, with the rates provided to each participating municipality apparently based in part on the municipality's demographic characteristics. The following are gross monthly rates per subscriber for plans in which current City employees and/or retirees are enrolled:

BCBS HMO (individual)	$735.09
BCBS HMO (family)	$1,729.08
BCBS PPO (individual)	$1,026.28
BCBS PPO (family)	$2,436.36
Medex (individual)	$479.60
Medex (individual effective August 1, 2014)	$316.52
Altus Dental (individual)	$24.64
Altus Dental (family)	$64.56

Retirees contribute towards their coverage. Depending on retirement date, retirees contribute either 23% or 25% of stated premiums.

SECTION IV - MEMBERSHIP DATA AND BREAKDOWN OF RESULTS

Number of Employees	School	Municipal Light Plant	City	Total
Actives	853	130	449	1,432
Retirees and Beneficiaries	841	220	528	1,589
Total	1,694	350	977	3,021
Accrued Liability @ 4%				
Active	81,272,742	21,323,012	70,355,156	172,950,910
Retired	76,076,619	22,363,961	54,773,973	153,214,553
Total	157,349,361	43,686,973	125,129,129	326,165,463
Annual Required Contribution @ 4%				
Normal Cost with interest	4,828,584	892,849	3,700,303	9,421,736
Amortization of UAL with interest	5,244,979	1,456,232	4,170,971	10,872,182
Total	10,073,563	2,349,081	7,871,274	20,293,918
Estimated Claims Costs	4,912,840	1,376,440	3,304,504	9,591,706
Accrued Liability @ 8%				
Active	39,051,001	10,907,825	34,954,818	84,913,644
Retired	52,266,996	15,316,171	37,306,006	104,889,173
Total	91,317,997	26,223,996	72,260,824	189,802,817
Annual Required Contribution @ 8%				
Normal Cost with interest	1,865,395	384,746	1,515,306	3,765,447
Amortization of UAL with interest	4,990,776	1,433,212	3,949,250	10,373,238
Total	6,856,171	1,817,958	5,464,556	14,138,685
Estimated Claims Costs	4,912,840	1,376,440	3,304,504	9,591,706

SECTION V - REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress on a Pay-as-You-Go Basis - 4%

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b) - (a) Unfunded AAL (UAL)	(a) / (b) Funded Ratio	(c) Payroll	(d) Unfunded AAL as % of Payroll
June 30, 2014	0	326,165,463	326,165,463	0.00%	97,480,359	334.6%
June 30, 2012	0	343,752,067	343,752,067	0.00%	108,589,531	316.6%
June 30, 2010	0	322,826,984	322,826,984	0.00%	90,713,287	355.9%
June 30, 2008	0	369,686,477	369,686,477	0.00%	100,920,885	366.3%

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 tables.

Development of OPEB Cost and Net OPEB Obligation (NOO) - City

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)
2012	19,859,691	2,195,078	1,829,232	20,225,537	6,797,916	13,427,621	68,304,572
2013	20,788,507	2,732,183	2,276,819	21,243,871	7,438,385	13,805,486	82,110,058
2014	17,944,837	3,284,402	2,737,002	18,492,237	8,217,344	10,274,893	92,384,951
2015	18,658,364	3,695,398	3,079,498	19,274,264	8,710,199	10,564,065	102,949,016

Development of OPEB Cost and Net OPEB Obligation (NOO) - TMLP

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)
2011							4,975,744
2012	2,166,546	199,030	103,351	2,262,225	1,252,495	1,009,730	5,985,474
2013	2,267,873	239,419	340,746	2,166,546	1,337,763	828,783	6,814,257
2014	2,349,081	272,570	227,142	2,394,509	1,376,440	1,018,069	7,832,326
2015	2,446,849	313,293	261,078	2,499,064	1,475,424	1,023,640	8,855,965

SECTION VII - SCHEDULE OF EMPLOYER CONTRIBUTIONS

The Governmental 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 pages, 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 on June 30th.

SECTION VII - SCHEDULE OF EMPLOYER CONTRIBUTIONS

Pay-As-You-Go 4%

Fiscal Year Ending In	Normal Cost	Amortization of UAL	ARC*	Pay-as-You-Go
2014	9,421,736	10,872,182	20,293,918	9,591,706
2015	9,845,714	11,302,143	21,147,857	10,185,623
2016	10,288,771	11,743,222	22,031,993	10,816,315
2017	10,751,766	12,206,686	22,958,452	11,148,979
2018	11,235,595	12,680,894	23,916,489	11,871,700
2019	11,741,197	13,159,531	24,900,728	12,815,014
2020	12,269,551	13,654,639	25,924,190	13,432,525
2021	12,821,681	14,162,946	26,984,627	14,189,893
2022	13,398,657	14,688,452	28,087,109	14,870,460
2023	14,001,597	15,229,571	29,231,168	15,644,408
2024	14,631,669	15,789,651	30,421,320	16,365,935
2025	15,290,094	16,372,454	31,662,548	17,027,964
2026	15,978,148	16,979,230	32,957,378	17,710,189
2027	16,697,165	17,611,313	34,308,478	18,413,004
2028	17,448,537	18,269,647	35,718,184	19,150,755
2029	18,233,721	18,955,452	37,189,173	19,918,065
2030	19,054,238	19,670,004	38,724,242	20,716,120
2031	19,911,679	20,414,647	40,326,326	21,546,149
2032	20,807,705	21,190,793	41,998,498	22,409,436
2033	21,744,052	21,999,922	43,743,974	23,307,311
2034	22,722,534	22,843,592	45,566,126	24,241,162
2035	23,745,048	23,723,440	47,468,488	25,212,429
2036	24,813,575	24,641,184	49,454,759	26,222,612
2037	25,930,186	25,598,632	51,528,818	27,273,269
2038	27,097,044	26,597,682	53,694,726	28,366,024
2039	28,316,411	27,640,330	55,956,741	29,502,561
2040	29,590,649	28,728,676	58,319,325	30,684,636
2041	30,922,228	29,864,923	60,787,151	31,914,073
2042	32,313,728	31,051,392	63,365,120	33,192,769
2043	33,767,846	32,290,521	66,058,367	34,522,699
2044	35,287,399	33,584,872	68,872,271	35,905,915
2045	36,875,332	34,937,141	71,812,473	37,344,552

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

SECTION VII - SCHEDULE OF EMPLOYER CONTRIBUTIONS

Full Prefunding 8%

Fiscal Year Ending In	Normal Cost	Amortization of UAL	ARC*	Pay-as-You-Go
2014	3,765,447	10,373,238	14,138,685	9,591,706
2015	3,934,892	10,788,168	14,723,060	10,185,623
2016	4,111,962	11,219,695	15,331,657	10,816,315
2017	4,297,000	11,668,483	15,965,483	11,148,979
2018	4,490,365	12,135,222	16,625,587	11,871,700
2019	4,692,431	12,620,631	17,313,062	12,815,014
2020	4,903,590	13,125,456	18,029,046	13,432,525
2021	5,124,252	13,650,474	18,774,726	14,189,893
2022	5,354,843	14,196,493	19,551,336	14,870,460
2023	5,595,811	14,764,353	20,360,164	15,644,408
2024	5,847,622	15,354,927	21,202,549	16,365,935
2025	6,110,765	15,969,124	22,079,889	17,027,964
2026	6,385,749	16,607,889	22,993,638	17,710,189
2027	6,673,108	17,272,205	23,945,313	18,413,004
2028	6,973,398	17,963,093	24,936,491	19,150,755
2029	7,287,201	18,681,617	25,968,818	19,918,065
2030	7,615,125	19,428,882	27,044,007	20,716,120
2031	7,957,806	20,206,037	28,163,843	21,546,149
2032	8,315,907	21,014,278	29,330,185	22,409,436
2033	8,690,123	21,854,849	30,544,972	23,307,311
2034	9,081,179	22,729,043	31,810,222	24,241,162
2035	9,489,832	23,638,205	33,128,037	25,212,429
2036	9,916,874	24,583,733	34,500,607	26,222,612
2037	10,363,133	25,567,082	35,930,215	27,273,269
2038	10,829,474	26,589,765	37,419,239	28,366,024
2039	11,316,800	27,653,356	38,970,156	29,502,561
2040	11,826,056	28,759,490	40,585,546	30,684,636
2041	12,358,229	29,909,870	42,268,099	31,914,073
2042	12,914,349	31,106,265	44,020,614	33,192,769
2043	13,495,495	32,350,516	45,846,011	34,522,699
2044	14,102,792	-	14,102,792	35,905,915
2045	14,737,418	-	14,737,418	37,344,552

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

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

CITY OF TAUNTON, ALL GROUPS

Interest: Pay-as-You-Go: 4.00% per year, net of investment expenses
Full Prefunding: 8.00% 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:

Year	Inflation Rate
2014	6.0%
2015	5.5%
2016	5.0%
2017	4.5%
2018 & after	4.5%

Dental Cost Trend Rate: Increases in dental costs are assumed to be 4% per year.

Amortization period: 30-year level percent of pay assuming 4% increasing, open basis for Pay-as-You-Go. 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.

Participation: 100% of active employees currently enrolled in a medical plan are assumed to participate in the retiree medical plan, 100% of future retirees are expected to elect dental insurance and 100% 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.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

CITY OF TAUNTON, ALL GROUPS

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 a weighted-average premium. This weighted-average premium is based on the medical plan coverage of current retirees under age 65. At age 65, all participants are assumed to participate in the Medex plan in the same proportion as current retirees over 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 future retirees over 65 will participate in the Medex plan with an employee cost share of 25%. Per capita costs were developed from the City 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:

90% of current actives 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 $15,697 and $4,520, respectively. Medicare eligible retirees' per capita claims costs at age 65 is $3,082.

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

CITY OF TAUNTON, 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:

		Service Retirement	
Age	**Disability**	**Male**	**Female**
25	0.0002		
30	0.0003		
35	0.0006		
40	0.0010		
45	0.0015		
50	0.0019	0.010	0.015
55	0.0024	0.020	0.055
60	0.0028	0.120	0.050
62	0.0030	0.300	0.150
65	0.0030	0.400	0.150
69		0.300	0.200

Years of Service	Rates of Withdrawal
0	0.150
1	0.120
2	0.100
3	0.090
4	0.080
5	0.076
10	0.054
15	0.033
20	0.020
25	0.010
30+	0.000

Mortality: RP2000 Mortality table, with Scale AA improvements to 2015. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 2 years is used.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

CITY OF TAUNTON, 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
25	0.0002
30	0.0003
35	0.0006
40	0.0010
45	0.0015
50	0.0019
55	0.0024
60	0.0028
62	0.0030
65	0.0030
69	

Years of Service	Rates of Withdrawal
0	0.150
1	0.120
2	0.100
3	0.090
4	0.080
5	0.076
10	0.054
15	0.033
20	0.020
25	0.010
30+	0.000

	Male Service Retirement		Female Service Retirement	
Age	**<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: RP2000 Mortality table, with Scale AA improvements to 2015. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 2 years is used.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

CITY OF TAUNTON, 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
25	0.0020	
30	0.0030	
35	0.0030	
40	0.0030	
45	0.0100	0.010
50	0.0125	0.020
55	0.0120	0.015
60	0.0085	0.020
62	0.0075	0.025
65	0.0000	1.000
69		

Years of Service	Rates of Withdrawal
0	0.015
1	0.015
2	0.015
3	0.015
4	0.015
5	0.015
6	0.015
7	0.015
8	0.015
9	0.015
10	0.015
11+	0.000

Mortality: RP2000 Mortality table, with Scale AA improvements to 2015. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 2 years is used.

SCHEDULE B - SUMMARY OF PROGRAM PROVISIONS

Retirement Medical Insurance: The majority of retirees pay a 25% share of their post-retirement medical costs. A minority of retirees pay a smaller share. This closed group, which is made up of a group of retirees enrolled during 2004, currently pays a 23% share of post-retirement medical costs.

Dental Insurance: Retirees with dental coverage pay a cost share of 25%.

Life Insurance: The City of Taunton contributes $4.60 per month for each retiree receiving $5,000 basic life insurance.

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.

Section 18 Coverage: The City 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 - 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 C - 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.