

**TOWN OF KINGSTON,  
MASSACHUSETTS**

**Postemployment Benefits  
Other Than Pensions  
Actuarial Valuation**

**July 1, 2008  
for Fiscal Year  
July 1, 2008 to June 30, 2009**

**April 2010**

*Submitted by:  
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April 8, 2010

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This report presents the July 1, 2008 Actuarial Valuation results for the retiree benefits (medical and life insurance) provided through the ***Town of Kingston ("the Town")***. The purposes of this report are to:

- (1) Determine the Town's July 1, 2008 obligations;
- (2) Determine the Town's 2008-09 Fiscal Year accrual under the *Governmental Accounting Standards Board (GASB)* standard based on GASB Statement 45;
- (3) Provide information for the Town's June 30, 2009 financial statement disclosure;  
and
- (4) Provide information that may be helpful in future planning for the Town.


A summary of the major results is shown in the Executive Summary, while the Principal Valuation Results Section provides more detail.

The Accounting Information Section summarizes GASB Other Postemployment Benefit (OPEB) accounting treatment including the 2008-09 fiscal year Annual Required Contribution (ARC) and Annual OPEB Cost (AOC).

This report's costs and liabilities are based upon the data and plan provisions provided by the Town as of July 1, 2006 and rolled forward on an actuarial basis to July 1, 2008. The Demographic Information, Summary of Principal Plan Provisions and Methods and Assumptions Sections of this report are the same as disclosed in the July 1, 2006 GASB 45 Study. This report presents our best estimate of the costs of the Plan in accordance with accepted actuarial principles and our understanding of GASB Statement 45.

Respectfully,

**Aon Consulting, Inc.**



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Thomas G. Vicente, FSA, EA, MAAA  
Member of the American Academy of Actuaries  
Senior Vice President  
Consulting Actuary

## *Table Of Contents*

	<i>Page</i>
Executive Summary	1
Actuarial Certification	3
Principal Valuation Results	4
Accounting Information	5
Allocation of Liabilities Across Employee Groups	8
10-Year Payout Projection	9
10-Year Projection of Annual OPEB Cost	10
Demographic Information	11
Summary of Principal Plan Provisions	12
Methods and Assumptions	13
Glossary	17

## *Executive Summary*

The **Town of Kingston (“the Town”)** provides medical and life insurance benefits to its retirees and their spouses. Details of the eligibility requirements and cost sharing arrangements can be found in the Plan Provisions section of this report. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

This summary identifies the value of benefits at July 1, 2008 and costs for the 2008-09 Fiscal Year:

### **I. Summary of Benefit Obligations**

	<b>July 1, 2008 GASB 45 Totals</b>
Present Value of Benefits	
Earned to Date (Actuarial Accrued Liability)	\$21,522,057
FY Annual Required Contribution (ARC)*	\$1,679,814
FY Annual OPEB Cost	\$1,679,814
Expected Benefit Premiums**	\$658,141
<p>* <b>The Annual Required Contribution reflects a 30-year level-dollar closed amortization of the Unfunded Actuarial Accrued Liability.</b></p> <p>** <b>Based on age-adjusted rates.</b></p>	

- The **Actuarial Accrued Liability (AAL)** is the liability or obligation for benefits earned through the valuation date, based on certain actuarial methods and assumptions. The Plan’s Actuarial Accrued Liability (at July 1, 2008) is \$21,522,057 assuming no prefunding of obligations. Approximately 61% of this obligation is for active employees.
- **Normal Cost** is the value of benefits expected to be earned during the current year, again based on certain actuarial methods and assumptions. The 2008-09 Fiscal Year Normal Cost is \$266,450 as of the beginning of the plan year. In pension accounting, this is also known as “**service cost.**”
- **Future Normal Costs** represent the present value of the remaining balance of all projected benefits to be earned in future years.

## *Executive Summary (continued)*

The results were calculated based upon plan provisions, as provided by the Town, along with certain demographic and economic assumptions as recommended by Aon, in conjunction with the Town, with guidance from the GASB statement.

### ***Demographic Assumptions***

Data was provided by the Town as of July 1, 2006. Demographic assumptions used to project the data are the same as those used for similar towns. There is no assumption for future new hires.

### ***Economic Assumptions***

The GASB statement requires that the discount rate used to determine the retiree healthcare liabilities should be the estimated long-term yield on the “investments that are expected to be used to finance the payments of benefits”. Since the Town decided not to pre-fund the retiree healthcare liabilities, the discount rate for the “no prefunding” scenario should be based on the portfolio of the Town’s “general assets” used to pay these benefits. Aon will assume an ongoing discount rate of 5.00%.

The trend assumption is used to project the growth of the expected claims over the lifetime of the healthcare recipients. The GASB statement does not require a particular source for information to determine healthcare trends, but it does recommend selecting a source that is “publicly available, objective and unbiased”.

Aon developed the trend assumption utilizing the short-term rates expected on the Town plan along with information in published papers from other industry experts (actuaries, health economists, etc.). The trend assumption begins at 11.0% and decreases to a 5.0% long-term trend rate for all healthcare benefits in the year 2014.

The balance of this report provides greater detail for the above results.

## *Actuarial Certification*

This report presents the results of the Actuarial Valuation for the Town of Kingston's Postemployment Benefits Other Than Pensions (the Plan) as of July 1, 2008 for development of accounting and financial reporting information under Statement No. 45 of the Governmental Accounting Standards Board.

This report has been prepared using generally accepted actuarial practices and methods. The actuarial assumptions (other than those strictly applicable to valuing the Plan, or as otherwise explicitly specified) used in the calculations are consistent with those used by similar towns. We have discussed Plan-specific assumptions with the Town and believe them to be reasonable.

Aon Consulting did not audit the employee data and financial information used in this valuation. On the basis of our review of this data, we believe that the information is sufficiently complete and reliable, and that it is appropriate for the purposes intended.

Actuarial computations under GASB 45 are for purposes of fulfilling governmental accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of the accounting standard. Determinations for purposes other than meeting governmental financial accounting requirements may be different from these results. Accordingly, additional determinations may be needed for other purposes, such as judging benefit security at termination.

This report is intended for the sole use of the Town. It is intended only to supply information for the Town to comply with the stated purposes of the report and may not be appropriate for other purposes. Reliance on information contained in this report by anyone for other than the intended purposes, puts the relying entity at risk of being misled because of confusion or failure to understand applicable assumptions, methodologies, or limitations of the report's conclusions. Accordingly, no person or entity, including the Town should base any representations or warranties in any business agreement on any statements or conclusions contained in this report without the written consent of Aon Consulting.

The actuary whose signature appears below is a Member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. He is available to answer any questions with regard to the matters enumerated in this report.

We further certify that this report is in compliance with Actuarial Standard of Practice No. 41, "Actuarial Communications".

Aon's relationship with the Plan and the Town is strictly professional. There are no aspects of the relationship that may impair or appear to impair the objectivity of our work.



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Thomas G. Vicente, FSA, EA, MAAA

## *Principal Valuation Results*

The following highlights the Town's recognition of the above amounts:

- The July 1, 2008 assets are \$0.
- The FY 2008-09 Annual Required Contribution (ARC) is \$1,679,814.
- Expected 2008-09 benefit payments are \$658,141.

The following table shows results by active and retired employee groups:

<b>GASB Results</b>	<b>July 1, 2008</b>
<b>Actuarial Accrued Liability</b>	
Active	\$13,227,456
Retirees	\$8,294,601
Total	\$21,522,057
<b>Assets</b>	\$0
<b>Unfunded Actuarial Accrued Liability</b>	\$21,522,057
<b>Normal Cost at beginning of year</b>	\$266,450

## *Accounting Information*

The effective date for the new GASB OPEB Accounting Standard is the Fiscal Year beginning July 1, 2008. The following shows the Annual Required Contribution (ARC), Annual OPEB Cost (AOC), and the projected June 30, 2009 Net OPEB Obligation (NOO).

### **Annual Required Contribution (ARC)**

The Standard sets the method for determining the Town's postemployment benefits accrual, the Annual Required Contribution (ARC), to include both the value of benefits earned during the year (Normal Cost) and an amortization of the Unfunded Actuarial Accrued Liability. Accordingly, the following table shows the Town's 2008-09 Fiscal Year Annual Required Contribution (ARC) based on a closed 30-year amortization of the Unfunded Actuarial Accrued Liability.

<b>Fiscal Year Ending June 30, 2009</b>	
Normal Cost at End of Year	\$279,773
Unfunded Actuarial Accrued Liability Amortization	<u>\$1,400,041</u>
Annual Required Contribution (ARC)	\$1,679,814

## *Accounting Information (continued)*

### **Annual OPEB Cost (AOC)**

If there is no OPEB obligation on the Town's financial statements at transition, then the Annual OPEB Cost is equal to the Annual Required Contribution. However, if there is an initial obligation at transition, the Annual OPEB Cost should reflect an adjustment for the transition obligation. Note that the GASB OPEB Statement, in general, directs sponsors to set their Initial OPEB Obligation to zero at transition. However, this may result in inconsistent accounting results. We recommend you discuss this issue with your auditors if an obligation is currently recorded on your financial statements. Note that in FYE 2009, or the first year of implementation of GASB 45, there is no adjustment to Annual Required Contribution. As the years go forth, any cumulative unpaid ARC will result in an adjustment to the Annual Required Contribution.

### **Summary of Total Annual OPEB Cost (AOC)**

<b>Fiscal Year Ending June 30, 2009</b>	
Annual Required Contribution (ARC)	\$1,679,814
Adjustment to Annual Required Contribution	<u>\$0</u>
<b>Total Annual OPEB Cost (AOC)</b>	<b>\$1,679,814</b>

### **Annual OPEB Cost Summary (After adoption, a 3-year display will be shown):**

<b>Fiscal Year Ending</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed *</b>	<b>Net OPEB Obligation</b>
6/30/2009	\$1,679,814	39.2%	\$1,021,673

\* Based on expected benefit payments for the applicable fiscal year.

## Accounting Information (continued)

### Projected June 30, 2009 Net OPEB Obligation (NOO)

Based on the Annual OPEB Cost developed above, the following is the projected June 30, 2009 Net OPEB Obligation (NOO):

	Total
July 1, 2008 Net OPEB Obligation (NOO)* (Initial)	\$0
<i>Plus:</i> Annual OPEB Cost (AOC)	\$1,679,814
<i>Less:</i> Schedule of contributions from the employer and other contributing entities**	\$658,141
Equals: Expected June 30, 2009 Net OPEB Obligation (NOO)***	\$1,021,673
* Assumes July 1, 2008 Net OPEB Obligation is \$0.	
** Based on expected benefit payments for the applicable fiscal year.	
*** Actual reserves would use actual FYE 2009 benefit payments.	

### Required Supplementary Information

Below is the projected schedule of funding progress:

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability - Projected Unit Credit	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
	(a)	(b)	(b) - (a)	(a) / (b)	(c)	[(b) - (a)] / (c)
7/1/2008	\$0	\$21,522,057	\$21,522,057	0%	TBD	TBD

## *Allocation of Liabilities Across Employee Groups*

	<i>General Employees</i>	<i>Sewer Employees</i>	<i>Water Employees</i>	<i>Total</i>
<b>Actuarial Accrued Liability</b>	\$20,411,518	\$675,793	\$434,746	\$21,522,057
<b>Assets</b>	\$0	\$0	\$0	\$0
<b>Normal Cost (BOY)</b>	\$244,415	\$11,537	\$10,498	\$266,450
<b>Benefit Payments (EOY)</b>	\$646,513	\$6,547	\$5,081	\$658,141
<b>Annual Required Contribution</b>				
Normal Cost (EOY)	\$256,636	\$12,114	\$11,023	\$279,773
Amort. Of UAAL	<u>1,327,939</u>	<u>44,101</u>	<u>28,001</u>	<u>1,400,041</u>
- Total	\$1,584,575	\$56,215	\$39,024	\$1,679,814

## *10-Year Payout Projection*

Annual payments expected based on assumptions and contributions detailed in the Methods and Assumptions Section.

<b>Fiscal Year Ending</b>	<b>General</b>	<b>Sewer</b>	<b>Water</b>	<b>Total</b>
6/30/2009	\$646,513	\$6,547	\$5,081	\$658,141
6/30/2010	732,416	12,509	7,721	752,646
6/30/2011	843,802	19,331	6,565	869,698
6/30/2012	966,786	27,705	8,304	1,002,795
6/30/2013	1,015,970	29,741	10,611	1,056,322
6/30/2014	1,075,145	38,407	13,381	1,126,933
6/30/2015	1,149,681	41,379	17,493	1,208,553
6/30/2016	1,192,921	40,482	24,052	1,257,455
6/30/2017	1,212,641	50,184	31,986	1,294,811
6/30/2018	1,192,921	46,369	40,360	1,278,838

***10-Year Projection of Annual OPEB Cost (AOC)***

Projections assume a closed group population (i.e., no new hires). We also assume pay-as-you-go contributions and a 5.00% annual rate of investment return.

<b>Fiscal Year Ending</b>	<b>Total AOC</b>	<b>Contributions</b>	<b>Net OPEB Obligation at FYE</b>
6/30/2009	\$1,679,814	\$658,141	\$1,021,673
6/30/2010	\$1,744,886	\$752,645	\$2,013,914
6/30/2011	\$1,809,186	\$869,697	\$2,953,403
6/30/2012	\$1,871,583	\$1,002,795	\$3,822,191
6/30/2013	\$1,931,216	\$1,056,322	\$4,697,085
6/30/2014	\$1,991,963	\$1,126,934	\$5,562,114
6/30/2015	\$2,053,068	\$1,208,554	\$6,406,629
6/30/2016	\$2,114,040	\$1,257,455	\$7,263,214
6/30/2017	\$2,176,553	\$1,294,811	\$8,144,956
6/30/2018	\$2,241,308	\$1,278,838	\$9,107,426

## Demographic Information

The following tables summarize active and retiree demographic information. The data collected, as well as age and service information shown, is as of July 1, 2006.

Active: Counts by Employee Group			
Employee Group	Male	Female	Total
General	74	80	154
Sewer	5	2	7
Water	5	1	6
<b>Total</b>	<b>84</b>	<b>83</b>	<b>167</b>

Active: Average Age by Employee Group			
Employee Group	Male	Female	Total
General	45.65	49.11	47.45
Sewer	48.15	48.06	48.12
Water	46.35	61.11	48.81
<b>Total</b>	<b>45.84</b>	<b>49.23</b>	<b>47.52</b>

Active: Average Service by Employee Group			
Employee Group	Male	Female	Total
General	16.05	24.03	20.20
Sewer	18.84	23.06	20.04
Water	17.24	36.11	20.38
<b>Total</b>	<b>16.28</b>	<b>24.16</b>	<b>20.19</b>

Retiree: Participant Counts and Average Age		
Employee Group	Count*	Average Age
General	66	70.49
Sewer	0	n/a
Water	0	n/a
<b>Total</b>	<b>66</b>	<b>70.49</b>

\* 28 spouses of retirees and 14 surviving spouses were also valued.

## *Summary of Principal Plan Provisions*

<b>Plan Eligibility</b>	Retire on or after reaching 20 years of service and age 55.
<b>Duration of Benefits</b>	<i>Retiree:</i> Lifetime <i>Spouse:</i> Lifetime
<b>Retiree Contributions</b>	<ul style="list-style-type: none"><li>• The eligible retirees and covered spouses pay 40% of the cost of coverage.</li><li>• Upon death of the retiree, surviving spouses can continue to receive benefits paying 50% of the cost.</li><li>• Life Insurance of \$10,000. Retirees pay \$52 per year for coverage.</li></ul>



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***Methods and Assumptions (continued)***

**Retirement Rates** The following table shows sample annual rates of retirement at selected ages.

Annual Rate of Retirement General Employees		
Age	Male	Female
50	1.0%	1.5%
51	1.0%	1.5%
52	1.0%	2.0%
53	1.0%	2.5%
54	2.0%	2.5%
55	2.0%	5.5%
56	2.5%	6.5%
57	2.5%	6.5%
58	5.0%	6.5%
59	6.5%	6.5%
60	12.0%	5.0%
61	20.0%	13.0%
62	30.0%	15.0%
63	25.0%	12.5%
64	22.0%	18.0%
65	40.0%	15.0%
66	25.0%	20.0%
67	25.0%	20.0%
68	30.0%	25.0%
69	30.0%	20.0%
70	100.0%	100.0%

**Disability Rates**

None.

## *Methods and Assumptions (continued)*

### **Healthcare Claims**

A blended premium is computed for all employees and retirees not yet eligible for Medicare benefits. Under GASB Statement 45, the non-blended (or age adjusted) premium is used for computing plan costs. Below are the representative premium costs:

<i>Kingston Plan</i>			<i>Blended Premium</i>		
<i>Age</i>	<i>Retiree</i>	<i>Spouse</i>	<i>Age</i>	<i>Retiree</i>	<i>Spouse</i>
50	\$6,671	\$9,630	50	\$6,252	\$9,024
55	\$7,869	\$11,360	55	\$6,252	\$9,024
60	\$9,445	\$13,637	60	\$6,252	\$9,024
65	\$3,414	\$3,414	65	\$4,368	\$4,368
70	\$3,957	\$3,957	70	\$4,368	\$4,368
75	\$4,455	\$4,455	75	\$4,368	\$4,368
80	\$4,871	\$4,871	80	\$4,368	\$4,368
85	\$5,094	\$5,094	85	\$4,368	\$4,368

### **Morbidity/Aging**

GASB requires that the costs for retiree benefits be separately identified. Currently, the Town provides benefits for actives and retirees not eligible for Medicare under one rating structure. As we see in the morbidity table below, retirees utilize benefits at a greater rate than the active population, due to their age. The active employees are "implicitly" subsidizing the retiree cost of the plan of benefits in the Town's rate basis. GASB requires that the Town utilize actual experience or actuarial adjustments in order to calculate the true cost of retiree benefits in order to calculate the present value of the retiree benefits. The actuarial assessment of the best estimate of retiree cost of benefits is premised on utilizing the morbidity/aging table below in developing the claims costs by age shown in the table above.

<b>Age</b>	<b>Annual Increase %</b>
50 – 54	3.3%
55 – 59	3.6%
60 – 64	4.2%
65 – 69	3.0%
70 – 74	2.5%
75 – 79	2.0%
80 – 84	1.0%
85 – 89	0.5%
90 +	0.0%

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***Methods and Assumptions (continued)***

**Healthcare Cost Trend**      Healthcare costs are assumed to increase at the following rates:

<i>Year</i>	<i>Pre-65 Trend</i>	<i>Post-65 Trend</i>
2008	11.0%	11.0%
2009	10.0%	10.0%
2010	9.0%	9.0%
2011	8.0%	8.0%
2012	7.0%	7.0%
2013	6.0%	6.0%
2014+	5.0%	5.0%

**Spouse Age Difference/  
Percent Married**      Males are assumed to be 3 years older than females. Active employees are assumed to be 80% married and choose family coverage at retirement.

**Coverage Assumptions**      We have assumed that 75% of current and future contingent eligible participants will elect healthcare benefits at their full eligibility age, or current age if later.

**Valuation Methodology and Terminology**      We have used GASB accounting methodology to determine the postretirement medical benefit obligations.

**Amortization Period**      The amortization cost for the initial Unfunded Actuarial Accrued Liability is a level dollar amount for a closed period of 30 years.

**Salary Scale**      N/A

## *Glossary*

### **Actuarial accrued liability**

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

### **Actuarial assumptions**

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

### **Actuarial cost method**

A procedure for determining the Actuarial Present Value of OPEB plan 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.

### **Actuarial present value of total projected benefits**

Total projected benefits include all benefits estimated to be payable to plan members (retirees and beneficiaries, terminated employees entitled to benefits but not yet receiving them, and current active members) as a result of their service through the valuation date and their expected future service. The actuarial present value of total projected benefits as of the valuation date is the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Expressed another way, it is the amount that would have to be invested on the valuation date so that the amount invested plus investment earnings will provide sufficient assets to pay total projected benefits when due.

## ***Glossary (continued)***

### **Actuarial valuation**

The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for an OPEB plan.

### **Actuarial valuation date**

The date as of which an actuarial valuation is performed.

### **Actuarial value of assets**

The value of cash, investments and other property belonging to a plan, as used by the actuary for the purpose of an Actuarial Valuation.

### **Amortization (of unfunded actuarial accrued liability)**

The 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 required contributions to a defined benefit OPEB plan.

### **Covered Group**

Plan members included in an actuarial valuation.

### **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).

## ***Glossary (continued)***

### **Employer's contributions**

Contributions made in relation to the annual required contributions of the employer (ARC). An employer has made a contribution in relation to the ARC if the employer has (a) made payments of benefits directly to or on behalf of a retiree or beneficiary, (b) made premium payments to an insurer, or (c) irrevocably transferred assets to a trust, or equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer(s) of plan administrator. Employer's contributions generally *do not equate* to benefits paid.

### **Funded ratio**

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

### **Funding excess**

The excess of the actuarial value of assets over 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.

### **Implicit Rate Subsidy**

The differential between utilizing a blend of active and non-Medicare retiree experience for cost of benefits, and utilizing solely the expected retiree experience. Blending a lower cost active cohort with retirees' results in an implicit rate subsidy for the retirees of the entire group.

## ***Glossary (continued)***

### **Inactives**

Certain former employees with a minimum amount of years of creditable service who have left contributions in the state retirement system.

### **Investment return assumption (discount rate)**

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

### **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.

### **Market-related value of plan assets**

A term used with reference to the actuarial value of assets. A market related value may be fair value, market value (or estimated market value), or a calculated value that recognizes changes in fair or market value over a period of, for example, three to five years.

### **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.

### **Normal cost**

That portion of the Actuarial Present Value of OPEB plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. In GASB 45, the term refers to employer normal cost.

### **OPEB assets**

The amount recognized by an employer for contributions to an OPEB plan greater than OPEB expense.

## ***Glossary (continued)***

### **OPEB expenditures**

The amount recognized by an employer in each accounting period for contributions to an OPEB plan on the modified accrual basis of accounting.

### **OPEB expense**

The amount recognized by an employer in each accounting period for contributions to an OPEB plan on the accrual basis of accounting.

### **OPEB liabilities**

The amount recognized by an employer for contributions to an OPEB plan less than OPEB expense/expenditures.

### **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.

### **Plan assets**

Resources, usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust, or equivalent arrangement, in which (a) employer contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, (c) assets are legally protected from creditors of the employers or plan administrator, for the payment of benefits in accordance with the terms of the plan.

### **Plan members**

The individuals covered by the terms of an OPEB plan. The plan membership generally includes employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits.

## ***Glossary (continued)***

### **Postemployment**

The period between termination of employment and retirement as well as the period after retirement.

### **Postemployment healthcare benefits**

Medical, dental, vision, and other health-related benefits provided to terminated or retired employees and their dependents and beneficiaries.

### **Postretirement benefit increase**

An increase in the benefits of retirees or beneficiaries granted to compensate for the effects of inflation (cost-of-living adjustment) or for other reasons. Ad hoc increases may be granted periodically by a decision of the board of trustees, legislature, or other authoritative body; both the decision to grant an increase and the amount of the increase are discretionary. Automatic increases are periodic increases specified in the terms of the plan; they are nondiscretionary except to the extent that the plan terms can be changed.

### **Projected unit credit actuarial cost method**

A method under which the benefits (projected or unprojected) of each individual included in an Actuarial Valuation are allocated by a consistent formula to valuation years. The Actuarial Present Value of benefits allocated to a valuation year is called the Normal Cost. The Actuarial Present Value of benefits allocated to all periods prior to a valuation year is called the Actuarial Accrued Liability.

Under this method, the Actuarial Gains (losses), as they occur, generally reduce (increase) the Unfunded Actuarial Accrued Liability.

Under this method, benefits are projected to all future points in time under the terms of the Plan and actuarial assumptions (for example, health trends). Retirees are considered to be fully attributed in their benefits. For actives, attribution is to expected retirement age; thus, benefits at each future point in time are allocated to past service based on a prorate of service-to-date over projected service.

## ***Glossary (continued)***

### **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.

### **Single-employer plan**

A plan that covers the current and former employees, including beneficiaries, of only one employer.

### **Sponsor**

The entity that established the plan. The sponsor generally is the employer or one of the employers that participate in the plan to provide benefits for their employees. Sometimes, however, the sponsor establishes the plan for the employees of other entities but does not include its own employees and, therefore, is not a participating employer of that plan. An example is a state government that establishes a plan for the employees of local governments within the state, but the employees of the state government are covered by a different plan.

### **Substantive plan**

The terms of an OPEB plan as understood by the employer(s) and plan members.

### **Transition year**

The fiscal year in which this Statement is first implemented.

### **Unfunded actuarial accrued liability (unfunded actuarial liability)**

The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.