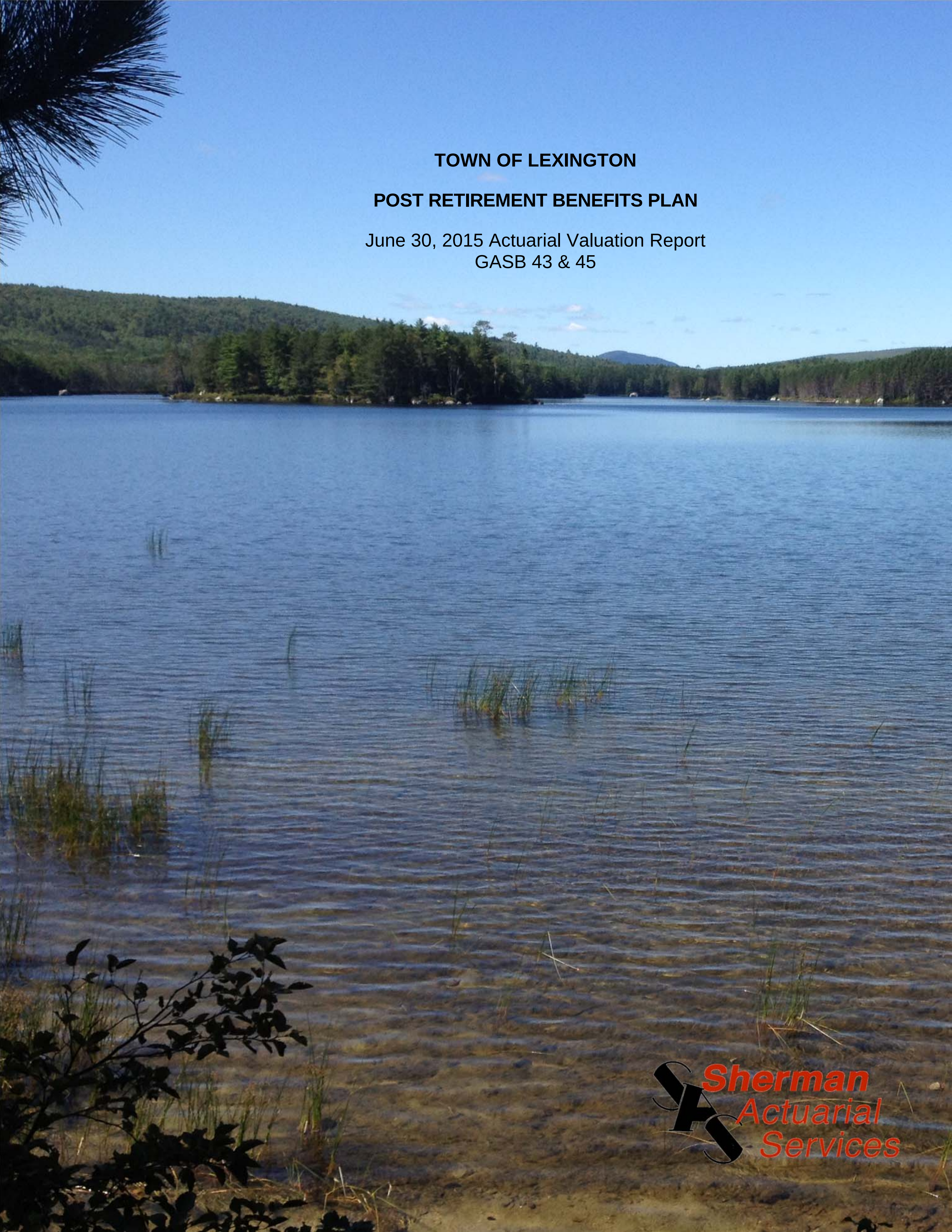
TOWN OF LEXINGTON

POST RETIREMENT BENEFITS PLAN

June 30, 2015 Actuarial Valuation Report
GASB 43 & 45



Sherman Actuarial Services

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SECTION I - OVERVIEW

The Town of Lexington has engaged Sherman Actuarial Services, LLC (SAS) to prepare an actuarial valuation of their post-retirement benefits program as of June 30, 2015. 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 Lexington. SAS did not audit these data, although they were reviewed for reasonability. 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."

According to GASB principles, if the benefits are not prefunded, the rate earned by the General Asset Account 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 Town is currently partially prefunding the obligation with additional contributions of $1,500,000. Based on this policy, we have determined that a discount rate of 5% is appropriate for financial reporting purposes. If the Town were to commence fully prefunding the Annual Required Contribution instead of paying benefits when due plus $1,500,000, the measurement would likely 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.

The unfunded liability for 2015 is significantly higher than that as of 2013. There are many factors contributing to the increase, including the following:

1. Just due to the passage of time, an increase of about 9% is expected.
2. The average increase in premiums for the two years was about 10% versus assumed 5%.
3. Under GASB 43 & 45, an estimate of the $6.5 million liability for the Affordable Health Care act tax "Cadillac Tax", must be included. The previous valuation did not include it.

4. The 2013 actuarial valuation did not include disability and retirement assumptions consistent with experience nor the pension assumptions.
5. The active population valued increased from 1223 to 1418. The retiree population increased from 1142 to 1255.

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 W. Sherman

December 14, 2015

Daniel Sherman, ASA, MAAA, EA — Date

SECTION II - REQUIRED INFORMATION

a)	Funding Policy	Full Pre-funding		Partial Pre-funding			
b)	Discount Rate	8.0%		5.0%			
c)	Actuarial valuation date	June 30, 2015		June 30, 2015		Difference	
	Actuarial Value of Assets	$	5,798,656	$	5,798,656	$	0
	Actuarial Accrued Liability						
d)	Active participants	$	59,513,508	$	103,635,710	$	44,122,202
	Retired participants		69,847,701		91,824,601		21,976,900
e)	Total AAL	$	129,361,209	$	195,460,311	$	66,099,102
f)	Unfunded Actuarial Liability "UAL" [e - d]	$	123,562,553	$	189,661,655	$	66,099,102
g)	Funded ratio [d / e]		4.5%		3.0%		-1.5%
h)	Annual covered payroll		99,122,987		99,122,987		
i)	UAL as percental of covered payroll		124.7%		191.3%		
j)	Normal Cost for fiscal year end 2015	$	3,819,294	$	7,920,128	$	4,100,834
k)	Amortization of UAL for fiscal year 2015 *	$	6,753,028	$	7,238,207	$	485,179
l)	Interest to end of fiscal year	$	0	$	0	$	0
m)	Annual Required Contribution "ARC" for fiscal year 2015 [j + k + l]	$	10,572,322	$	15,158,335	$	4,586,013
n)	Benefit payments for fiscal 2015	$	6,681,308	$	6,681,308	$	0
o)	Additional Funds for Prefunding [m - n]	$	3,891,014				

* 30-year amortization, increasing 4.0% per year

SECTION III - MEDICAL PREMIUMS

Monthly Premiums effective FYE16

Health and dental benefits are available to employees and retirees through a number of plans. The following are gross monthly rates per subscriber for plans in which current Town employees and/or retirees are enrolled:

	Single	Family
Fallon Community Health Plan Direct Care	$492.89	$1,182.96
Fallon Community Health Plan Select Care	$654.98	$1,571.91
Harvard Pilgrim Independence Plan	$749.39	$1,828.49
Harvard Pilgrim Primary Choice	$599.51	$1,462.80
Health New England	$494.17	$1,225.14
NHP Care (Neighborhood Health Plan)	$470.71	$1,247.36
Tufts Health Plan Navigator	$659.25	$1,609.60
Tufts Health Plan Spirit	$501.40	$1,207.85
UniCareState Indemnity Plan/Basicwith CIC (Comprehensive)	$974.65	$2,281.72
UniCareState Indemnity Plan/Basic without CIC (Non-Comprehensive)	$932.32	$2,183.55
UniCareState Indemnity Plan/Community Choice	$472.29	$1,136.29
UniCareState Indemnity Plan/PLUS	$655.64	$1,566.91
Fallon Senior Plan**	$302.13	
Harvard Pilgrim Medicare Enhance	$392.24	
Health New England MedPlus	$360.95	
Tufts Health Plan Medicare Complement	$353.91	
UniCareState Indemnity Plan/Medicare Extension (OME) with CIC (Comprehensive)	$275.60	
UniCareState Indemnity Plan/Medicare Extension (OME) without CIC (Non-Comprehensive)	$403.98	

Retirees contribute between 18% and 25%. Those electing a Medicare Supplemental plan pay between 3% and 15%.

SECTION IV – BREAKOUTS

Number of Participants included in valuation

	Town	Recreation	Sewer	Water	Total
Actives	1,402	3	3	10	1,418
Retired & Spouses (medical &/or life)	1,243	3	0	9	1,255
Total	2,645	6	6	10	2,673

Accrued Liability @ 5%

	Town	Recreation	Sewer	Water	Total
Active	102,161,790	202,519	376,409	894,992	103,635,710
Retired	91,109,113	245,251	0	470,237	91,824,601
Total	193,270,903	447,770	376,409	1,365,229	195,460,311
Assets	5,733,704	13,284	11,167	40,502	5,798,656
Unfunded Liability	187,537,199	434,486	365,242	1,324,727	189,661,655

Annual Required Contribution

	Town	Recreation	Sewer	Water	Total
Normal Cost with interest	7,848,220	15,401	17,520	38,987	7,920,128
Amortization of UAL with interest	7,157,130	16,582	13,939	50,557	7,238,208
Total	15,005,350	31,983	31,459	89,544	15,158,336

Accrued Liability @ 8.0%

	Town	Recreation	Sewer	Water	Total
Active	58,570,020	127,343	222,289	593,856	59,513,508
Retired	69,295,685	188,898	0	363,118	69,847,701
Total	127,865,705	316,241	222,289	956,974	129,361,209
Assets	5,733,704	13,284	11,167	40,502	5,798,656
Unfunded Liability	122,132,001	302,957	211,122	916,472	123,562,553

Annual Required Contribution

	Town	Recreation	Sewer	Water	Total
Normal Cost with interest	3,787,520	8,579	6,940	16,255	3,819,294
Amortization of UAL with interest	6,674,845	16,557	11,538	50,088	6,753,028
Total	10,462,365	25,136	18,478	66,343	10,572,322

SECTION V - REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress on a Pay-as-You-Go Basis - 5.0%*

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b) - (a) Unfunded AAL (UAL)	(a) / (b) Funded Ratio	(c) Covered Payroll	[(b)-(a)]/(c) UAL as Percentage of Covered Payroll
June 30, 2009	840,000	266,098,830	265,258,830	0.32%	n/a	n/a
June 30, 2011	2,000,000	306,300,691	304,300,691	0.65%	n/a	n/a
June 30, 2013	3,069,273	131,406,069	128,336,796	2.34%	83,486,497	153.72%
June 30, 2015	5,798,656	195,460,311	189,661,655	2.97%	99,122,987	191.34%

* 2.5% used for FYE 2009 and 2011, 4.5% Through FYE13, 5% for FYE15

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.

Development of OPEB Cost and Net OPEB Obligation (NOO)

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
2013							71,311,874
2014	11,822,057	3,110,140	4,366,521	10,565,676	6,231,434	4,334,242	75,646,116
2015	15,158,335	3,782,306	2,886,942	16,053,699	8,181,308	7,872,391	83,518,507
2016	15,868,861	4,175,925	3,187,382	16,857,404	8,853,284	8,004,120	91,522,627
2017	16,598,886	4,576,131	3,492,850	17,682,167	9,368,581	8,313,585	99,836,213

* Includes $1,500,000 extra contributions for FYE15 through FYE17, respectively.

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 4.0% for 30 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 VII - SCHEDULE OF EMPLOYER CONTRIBUTIONS

Partial Prefunding - 5%

Fiscal Year Ending In	Normal Cost	Amortization of UAL	ARC*	Estimated Premium Cost
2015	7,920,128	7,238,207	15,158,335	6,681,308
2016	8,276,534	7,592,327	15,868,861	7,353,284
2017	8,648,978	7,949,908	16,598,886	7,868,581
2018	9,038,182	8,317,713	17,355,895	8,585,164
2019	9,444,900	8,688,859	18,133,759	9,166,078
2020	9,869,921	9,069,310	18,939,231	9,631,577
2021	10,314,067	9,464,552	19,778,619	10,249,310
2022	10,778,200	9,869,893	20,648,093	10,813,249
2023	11,263,219	10,288,479	21,551,698	11,276,485
2024	11,770,064	10,725,460	22,495,524	12,035,338
2025	12,299,717	11,170,763	23,470,480	12,602,281
2026	12,853,204	11,632,890	24,486,094	13,064,644
2027	13,431,598	12,117,367	25,548,965	13,624,065
2028	14,036,020	12,622,126	26,658,146	14,072,099
2029	14,667,641	13,153,159	27,820,800	14,628,576
2030	15,327,685	13,708,178	29,035,863	15,050,224
2031	16,017,431	14,294,304	30,311,735	15,475,492
2032	16,738,215	14,913,613	31,651,828	15,843,072
2033	17,491,435	15,570,692	33,062,127	16,313,890
2034	18,278,550	16,264,077	34,542,627	17,048,015
2035	19,101,085	16,985,979	36,087,064	17,815,175
2036	19,960,634	17,737,232	37,697,866	18,616,858
2037	20,858,863	18,518,660	39,377,523	19,454,617
2038	21,797,512	19,331,073	41,128,585	20,330,075
2039	22,778,400	20,175,261	42,953,661	21,244,928
2040	23,803,428	21,051,986	44,855,414	22,200,950
2041	24,874,582	21,961,978	46,836,560	23,199,992
2042	25,993,938	22,905,924	48,899,862	24,243,992
2043	27,163,665	23,884,466	51,048,131	25,334,972
2044	28,386,030	24,898,183	53,284,213	26,475,045
2045	29,663,401	25,947,586	55,610,987	27,666,423

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

SECTION VII - SCHEDULE OF EMPLOYER CONTRIBUTIONS

Full Prefunding Basis - 8%

Fiscal Year Ending In	Normal Cost	Amortization of UAL	ARC*	Estimated Premium Cost
2015	3,819,294	6,753,028	10,572,322	6,681,308
2016	3,991,162	7,056,914	11,048,076	7,353,284
2017	4,170,764	7,374,475	11,545,239	7,868,581
2018	4,358,448	7,706,327	12,064,775	8,585,164
2019	4,554,578	8,053,112	12,607,690	9,166,078
2020	4,759,534	8,415,502	13,175,036	9,631,577
2021	4,973,713	8,794,199	13,767,912	10,249,310
2022	5,197,530	9,189,938	14,387,468	10,813,249
2023	5,431,419	9,603,485	15,034,904	11,276,485
2024	5,675,833	10,035,642	15,711,475	12,035,338
2025	5,931,245	10,487,246	16,418,491	12,602,281
2026	6,198,151	10,959,172	17,157,323	13,064,644
2027	6,477,068	11,452,335	17,929,403	13,624,065
2028	6,768,536	11,967,690	18,736,226	14,072,099
2029	7,073,120	12,506,236	19,579,356	14,628,576
2030	7,391,410	13,069,017	20,460,427	15,050,224
2031	7,724,023	13,657,122	21,381,145	15,475,492
2032	8,071,604	14,271,693	22,343,297	15,843,072
2033	8,434,826	14,913,919	23,348,745	16,313,890
2034	8,814,393	15,585,045	24,399,438	17,048,015
2035	9,211,041	16,286,372	25,497,413	17,815,175
2036	9,625,538	17,019,259	26,644,797	18,616,858
2037	10,058,687	17,785,126	27,843,813	19,454,617
2038	10,511,328	18,585,456	29,096,784	20,330,075
2039	10,984,338	19,421,802	30,406,140	21,244,928
2040	11,478,633	20,295,783	31,774,416	22,200,950
2041	11,995,171	21,209,093	33,204,264	23,199,992
2042	12,534,954	22,163,502	34,698,456	24,243,992
2043	13,099,027	23,160,860	36,259,887	25,334,972
2044	13,688,483	24,203,099	37,891,582	26,475,045
2045	14,304,465	-	14,304,465	27,666,423

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

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

TOWN OF LEXINGTON, ALL GROUPS

Interest: Partial Prefunding: 5.00% 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
2016	6.0%
2017	5.5%
2018	5.0%
2019 & after	4.5%

Amortization Period: 30-year level percent of pay assuming 4.0% 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.

Participation: 85% of future retirees are assumed to participate in a retiree medical plan and a retiree dental plan, and 70% of future retirees are expected to elect life insurance.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

TOWN OF LEXINGTON, ALL GROUPS

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 a 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 under 65 will participate in the Medex 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: 85% 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 2015-16 at age 64 and 65 are $13,158 and $4,098, respectively. Medicare eligible retirees' per capita claims costs at age 65 is $3,590. It is assumed that future retirees participate in the same manner as current retirees. Employee cost sharing is based on current rates. 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 LEXINGTON, 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	
		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: RP-2000 with projection Scale AA 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

TOWN OF LEXINGTON, 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: RP-2000 with projection Scale AA 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

TOWN OF LEXINGTON, 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: RP-2000 with projection Scale AA 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:	Retirees pay from 18% to 25% share of their post-retirement medical costs, depending on the plan elected. Retirees in the Medex plan pay 32% and surviving spouses pay a 50% cost share. Those electing a Medicare Supplemental plan pay between 3% and 15%.
Dental Insurance:	The Town of Lexington contributes 50% of the cost per month for each retiree receiving dental insurance. Plans available for both individual and family coverage are Delta Premier and Delta Care.
Life Insurance:	The Town of Lexington contributes $.84 per month for each retiree receiving $2,000 basic life insurance. Retirees that opt for life insurance pay $.84 per month for coverage.
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. For a Group 1 employee hired on or after April 2, 2012, attainment of age 60 and completion of ten 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 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.

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.