JUNE 30, 2017
ACTUARIAL VALUATION OF
THE POST RETIREMENT BENEFITS PLAN
OF
THE TOWN OF LEXINGTON
GASB 43 & 45

January 2018

Sherman
Actuarial
Services

TABLE OF CONTENTS

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, 2017. 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 about $1,500,000 for FYE17 and about $1,800,000 for FYE19 through FYE2021. 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 7.5% discount rate.

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

The unfunded liability for 2017 is higher than that as of 2015. 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 7% versus assumed 6%.

3. The active population valued increased from 1418 to 1428. The retiree population increased from 1255 to 1335.

4. Demographic assumptions were modified based on the Sherman Actuarial Services Experience Study. The assumption changes decreased the unfunded liability.

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

January 30, 2018

Daniel Sherman, ASA, MAAA — Date

SECTION II - REQUIRED INFORMATION

a)	Funding Policy	Full Pre-funding		Partial Pre-funding			
b)	Discount Rate	7.5%		5.0%			
c)	Actuarial valuation date	June 30, 2017		June 30, 2017		Difference	
	Actuarial Value of Assets	$	9,869,875	$	9,869,875	$	0
	Actuarial Accrued Liability						
d)	Active participants	$	66,088,930	$	106,770,211	$	40,681,281
	Retired participants		81,841,153		103,510,744		21,669,591
e)	Total AAL	$	147,930,083	$	210,280,955	$	62,350,872
f)	Unfunded Actuarial Liability "UAL" [e - d]	$	138,060,208	$	200,411,080	$	62,350,872
g)	Funded ratio [d / e]		6.7%		4.7%		-2.0%
h)	Annual covered payroll		102,059,394		102,059,394		
i)	UAL as percental of covered payroll		135.3%		196.4%		
j)	Normal Cost for fiscal year end 2017	$	4,256,330	$	7,873,363	$	3,617,033
k)	Amortization of UAL for fiscal year 2017 *	$	7,140,156	$	7,648,446	$	508,290
l)	Interest to end of fiscal year	$	0	$	0	$	0
m)	Annual Required Contribution "ARC" for fiscal year 2017 [j + k + l]	$	11,396,486	$	15,521,809	$	4,125,323
n)	Benefit payments for fiscal 2017	$	7,172,839	$	7,172,839	$	0
o)	Additional Funds for Prefunding [m - n]	$	4,223,647				

* 30-year amortization, increasing 4.0% per year

SECTION III - MEDICAL PREMIUMS

Monthly Premiums effective FYE18

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	$554.65	$1,331.20
Fallon Community Health Plan Select Care	$737.06	$1,768.89
Harvard Pilgrim Independence Plan	$824.23	$2,011.10
Harvard Pilgrim Primary Choice	$620.70	$1,514.53
Health New England	$548.15	$1,358.98
NHP Care (Neighborhood Health Plan)	$554.04	$1,468.22
Tufts Health Plan Navigator	$728.84	$1,778.41
Tufts Health Plan Spirit	$553.27	$1,331.92
UniCareState Indemnity Plan/Basic with CIC (Comprehensive)	$1,038.80	$2,430.54
UniCareState Indemnity Plan/Community Choice	$520.59	$1,249.46
UniCareState Indemnity Plan/PLUS	$693.20	$1,656.13
Fallon Senior Plan**	$336.17	
Harvard Pilgrim Medicare Enhance	$423.05	
Health New England MedPlus	$394.84	
Tufts Health Plan Medicare Complement	$382.26	
Tufts Health Plan Medicare Preferred	$301.05	
UniCareState Indemnity Plan/Medicare Extension (OME) with CIC (Comprehensive)	$380.64	

Retirees contribute between 13% and 25%. Those electing a Medicare Supplemental plan pay between 3% and 25%.

SECTION IV – BREAKOUTS

Number of Participants included in valuation

	Recreation	Sewer	Town	Water	Total
Actives	5	3	1,410	10	1,428
Retired & Spouses (medical &/or life)	6	0	1,320	9	1,335
Total	11	3	2,730	19	2,763

Accrued Liability @ 7.50%

	Recreation	Sewer	Town	Water	Total
Active	55,487	195,864	65,358,479	479,100	66,088,930
Retired	476,937	0	80,853,911	510,305	81,841,153
Total	532,424	195,864	146,212,390	989,405	147,930,083
Assets	32,781	14,888	9,760,303	61,903	9,869,875
Unfunded Liability	499,643	180,976	136,452,087	927,502	138,060,208

Annual Required Contribution

	Recreation	Sewer	Town	Water	Total
Normal Cost with interest	13,292	5,765	4,231,534	5,739	4,256,330
Amortization of UAL with interest	25,840	9,360	7,056,987	47,968	7,140,155
Total	39,132	15,125	11,288,521	53,707	11,396,485

Accrued Liability @ 5.00%

	Recreation	Sewer	Town	Water	Total
Active	86,142	317,188	105,687,281	679,600	106,770,211
Retired	612,273	0	102,259,214	639,257	103,510,744
Total	698,415	317,188	207,946,495	1,318,857	210,280,955
Assets	32,781	14,888	9,760,303	61,903	9,869,875
Unfunded Liability	665,634	302,300	198,186,192	1,256,954	200,411,080

Annual Required Contribution

	Recreation	Sewer	Town	Water	Total
Normal Cost with interest	23,402	11,494	7,825,962	12,505	7,873,363
Amortization of UAL with interest	25,403	11,537	7,563,536	47,970	7,648,446
Total	48,805	23,031	15,389,498	60,475	15,521,809

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%
June 30, 2017	9,869,875	210,280,955	200,411,080	4.69%	102,059,394	196.37%

* 2.5% used for FYE 2009 and 2011, 4.5% Through FYE13, 5% for FYE15 and FYE17

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	15,521,809	4,576,131	3,492,850	16,605,090	8,685,157	7,919,932	99,442,559

* Includes $1,512,318 extra contribution for FYE17.

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
2017	7,873,363	7,648,446	15,521,809	7,172,839
2018	8,227,664	7,992,085	16,219,749	7,636,959
2019	8,597,909	8,348,418	16,946,327	8,131,110
2020	8,984,815	8,717,619	17,702,434	8,654,118
2021	9,389,132	9,099,968	18,489,100	9,204,269
2022	9,811,643	9,493,204	19,304,847	9,779,079
2023	10,253,167	9,903,798	20,156,965	10,290,414
2024	10,714,560	10,218,155	20,932,715	10,723,807
2025	11,196,715	10,540,387	21,737,102	11,418,400
2026	11,700,567	10,876,570	22,577,137	11,989,967
2027	12,227,093	11,228,449	23,455,542	12,557,940
2028	12,777,312	11,594,622	24,371,934	13,206,146
2029	13,352,291	11,978,904	25,331,195	13,800,422
2030	13,953,144	12,382,192	26,335,336	14,421,441
2031	14,581,035	12,805,427	27,386,462	15,070,406
2032	15,237,182	13,249,596	28,486,778	15,748,575
2033	15,922,855	13,715,735	29,638,590	16,457,260
2034	16,639,383	14,204,933	30,844,316	17,197,837
2035	17,388,155	14,718,331	32,106,486	17,971,740
2036	18,170,622	15,257,128	33,427,750	18,780,468
2037	18,988,300	15,822,581	34,810,881	19,625,589
2038	19,842,774	16,416,011	36,258,785	20,508,741
2039	20,735,699	17,038,802	37,774,501	21,431,634
2040	21,668,805	17,692,409	39,361,214	22,396,058
2041	22,643,901	18,378,359	41,022,260	23,403,880
2042	23,662,877	19,098,253	42,761,130	24,457,055
2043	24,727,706	19,853,772	44,581,478	25,557,622
2044	25,840,453	20,646,681	46,487,134	26,707,715
2045	27,003,273	21,478,832	48,482,105	27,909,563
2046	28,218,420	22,352,170	50,570,590	29,165,493
2047	29,488,249	23,268,734	52,756,983	30,477,940

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

SECTION VII - SCHEDULE OF EMPLOYER CONTRIBUTIONS

Full Prefunding Basis – 7.5%

Fiscal Year Ending In	Normal Cost	Amortization of UAL	ARC*	Estimated Premium Cost
2017	4,256,330	7,140,155	11,396,485	7,172,839
2018	4,447,865	7,461,462	11,909,327	7,636,959
2019	4,648,019	7,797,228	12,445,247	8,131,110
2020	4,857,180	8,148,103	13,005,283	8,654,118
2021	5,075,753	8,514,768	13,590,521	9,204,269
2022	5,304,162	8,897,932	14,202,094	9,779,079
2023	5,542,849	9,298,339	14,841,188	10,290,414
2024	5,792,277	9,716,764	15,509,041	10,723,807
2025	6,052,929	10,154,019	16,206,948	11,418,400
2026	6,325,311	10,610,950	16,936,261	11,989,967
2027	6,609,950	11,088,442	17,698,392	12,557,940
2028	6,907,398	11,587,422	18,494,820	13,206,146
2029	7,218,231	12,108,856	19,327,087	13,800,422
2030	7,543,051	12,653,755	20,196,806	14,421,441
2031	7,882,488	13,223,174	21,105,662	15,070,406
2032	8,237,200	13,818,217	22,055,417	15,748,575
2033	8,607,874	14,440,036	23,047,910	16,457,260
2034	8,995,228	15,089,838	24,085,066	17,197,837
2035	9,400,013	15,768,881	25,168,894	17,971,740
2036	9,823,014	16,478,480	26,301,494	18,780,468
2037	10,265,050	17,220,012	27,485,062	19,625,589
2038	10,726,977	17,994,912	28,721,889	20,508,741
2039	11,209,691	18,804,684	30,014,375	21,431,634
2040	11,714,127	19,650,894	31,365,021	22,396,058
2041	12,241,263	20,535,185	32,776,448	23,403,880
2042	12,792,120	21,459,268	34,251,388	24,457,055
2043	13,367,765	22,424,935	35,792,700	25,557,622
2044	13,969,314	23,434,057	37,403,371	26,707,715
2045	14,597,933	24,488,590	39,086,523	27,909,563
2046	15,254,840	25,590,576	40,845,416	29,165,493
2047	15,941,308	-	15,941,308	30,477,940

* 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: 7.50% per year, net of investment expenses

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

Healthcare Cost Trend Rate:

Year	Inflation Rate
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.

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

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

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

TOWN OF 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 2017-18 at age 64 and 65 are $15,167 and $4,151, respectively. Medicare eligible retirees' per capita claims costs at age 65 is $3,605. 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 NON-TEACHERS

The below tables represent values of the assumed annual rates of withdrawal, disability, death and service retirement:

Group 1 and 2

Age	Disability	Service Retirement Male	Female	Male Post 2012 Hire	Female Post 2012 Hire
25	0.0001				
30	0.0002				
35	0.0003				
40	0.0007				
45	0.0010				
50	0.0013	0.0360	0.1019		
55	0.0016	0.0477	0.0469		
60	0.0018	0.1057	0.0774	0.0477	0.0469
62	0.0019	0.1473	0.1168	0.0632	0.0509
65	0.0016	0.2615	0.1939	0.1057	0.0774
69	0.0014	0.2500	0.2000	0.2136	0.1708

Years of Service	Rates of Withdrawal
0	0.2080
5	0.1020
10	0.0650
15	0.0417
20	0.0400
25	0.0400
30+	0.0000

Group 4

Age	Disability	Service Retirements Pre 2012	Post 2012
25	0.0005		
30	0.0010		
35	0.0020		
40	0.0025		
45	0.0040	.0443	
50	0.0076	.0382	0.0191
55	0.0076	.1110	0.0370
60	0.0065	.1871	0.0936
62	0.0065	.2176	0.1741
65	0.0000	1.0000	0.2500

Years of Service	Rates of Withdrawal
0 - 1	0.150
2 - 3	0.125
4 - 5	0.100
6 - 7	0.075
8 - 9	0.050
10 - 19	0.060
20+	0.000

Mortality: It is assumed that both pre-retirement mortality and beneficiary mortality is represented by the RP-2014 Blue Collar Mortality with Scale MP-2016, fully generational. Mortality for retired members for Group 1 and 2 is represented by the RP-2014 Blue Collar Mortality Table set forward five years for males and 3 years for females, fully generational. Mortality for retired members for Group 4 is represented by the RP-2014 Blue Collar Mortality Table set forward three years for males, and six years for females, fully generational. Mortality for disabled members for Group 1 and 2 is represented by the RP-2000 Mortality Table set forward six years. Mortality for disabled members for Group 4 is represented by the RP-2000 Mortality Table set forward two years. Generational adjusting is based on Scale MP-2016.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

TOWN OF LEXINGTON 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 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 25% and surviving spouses pay a 50% cost share. Those electing a Medicare Supplemental plan pay between 3% and 25%.
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, 2020: 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.