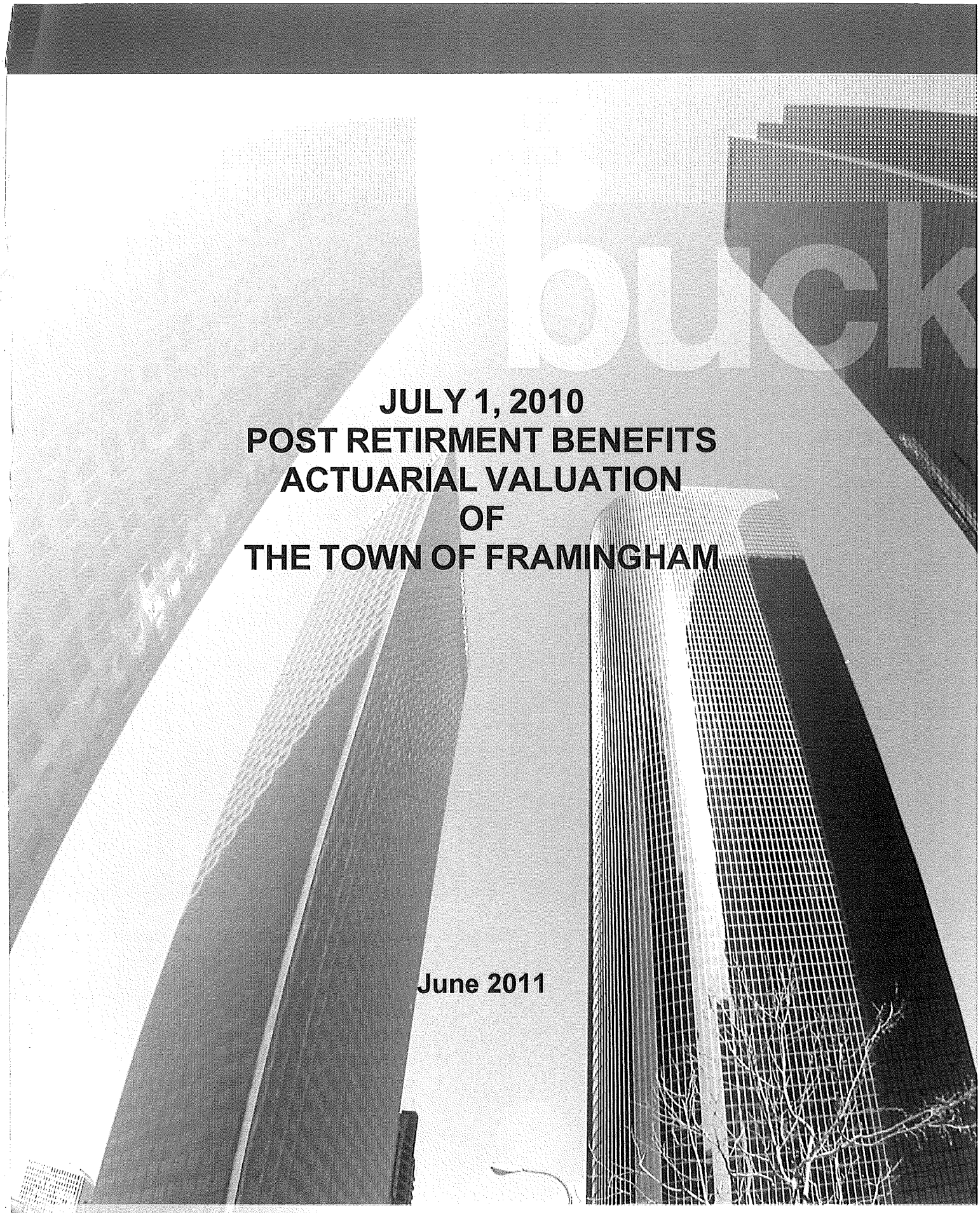

JULY 1, 2010
POST RETIRMENT BENEFITS
ACTUARIAL VALUATION
OF
THE TOWN OF FRAMINGHAM

June 2011

A Xerox Company

buckconsultants

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SECTION I – OVERVIEW

The Town of Framingham has engaged Buck Consultants to prepare an actuarial valuation of post-retirement benefits program as of July 1, 2010. The Town provided employee data and premium information.

The purposes of the valuation are to analyze the current funded position of the Town's post-retirement benefits program, determine the level of contributions necessary to assure sound funding and provide reporting and disclosure information for financial statements, governmental agencies and other interested parties. This valuation report contains information required by the Government Accounting Standards Board's Statements Nos. 43 and 45, respectively entitled "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" and "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions."

According to GASB principles, if the benefits are not pre-funded, the rate earned by the General Asset Account must be used. Liabilities have been determined based on a not pre-funded 4.0% discount rate. To estimate the impact of fully prefunding the obligation we used an alternative discount rate of 8.0%. Section II provides a summary of the principal valuation results. Section V provides a projection of ARC and Pay-as-you-go amount.

The unfunded actuarial liability decreased from $389,842,640 to $371,529,899 from 2008 to 2010, based on a 4.0% discount rate. The expectation for 2010 was $425,673,319. The gain of $54,143,420 was mainly due to the cost method change to reflect the fact that actives and retirees have separate plans and medical rates ($71,621,233), the decrease in future retirees participation rates (9,592,429) to better reflect the plan experience, and offset by the increase in medical trend ($27,070,242).

Based on the foregoing, the cost results and actuarial exhibits presented in this report were determined on a consistent and objective basis in accordance with applicable Actuarial Standards of Practice and generally accepted actuarial procedures.

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.

Respectfully Submitted,

BUCK CONSULTANTS, LLC

Daniel Sherman, ASA, MAAA, EA
Director and Consulting Actuary

6/28/11
Date

Tina Liu
Consultant

6/28/2011
Date

SECTION II – REQUIRED INFORMATION

Assumed Pay-As-You-Go Interest Rate of 4%

	Town	School	Total
a) Actuarial Valuation Date	July 1, 2010	July 1, 2010	July 1, 2010
b) Actuarial value of assets	$ 0	$ 0	$ 0
c) Actuarial accrued liability			
Active Participants	$ 89,254,331	$ 119,139,781	$ 208,394,112
Retired Participants	$ 67,241,625	$ 95,894,162	$ 163,135,787
Total	$ 156,495,956	$ 215,033,943	$ 371,529,899
d) Unfunded actuarial liability (UAL) (c.-b.)	$ 156,495,956	$ 215,033,943	$ 371,529,899
e) Funded ratio (c./b.)	0%	0%	0%
f) Annual covered payroll	$ 40,797,678	$ 73,126,499	$ 113,924,177
g) UAL as percentage of covered payroll	384%	294%	326%
h) Normal Cost for the Fiscal Year 2011*	$ 5,188,940	$ 8,340,271	$ 13,529,211
i) Amortization of UAL for FY2011**	$ 4,958,172	$ 6,812,798	$ 11,770,970
j) Annual Required Contribution (ARC) for Fiscal Year 2011 (h.+i.)*	$ 10,147,112	$ 15,153,069	$ 25,300,181
k) Estimated Town Contribution for FY2011	$ 4,208,109	$ 6,274,322	$ 10,482,431

* Assuming that the contribution is paid in the middle of the fiscal year on January 1.

**30 years amortization with payments increasing 4.5% per year.

SECTION II – REQUIRED INFORMATION (Continued)

Assumed Full Prefunding Interest Rate of 8%

	Town	School	Total
a) Actuarial Valuation Date	July 1, 2010	July 1, 2010	July 1, 2010
b) Actuarial value of assets	$ 0	$ 0	$ 0
c) Actuarial accrued liability			
Active Participants	$ 39,084,300	$ 52,451,969	$ 91,536,269
Retired Participants	$ 45,432,961	$ 65,223,276	$ 110,656,237
Total	$ 84,517,261	$ 117,675,245	$ 202,192,506
d) Unfunded actuarial liability (UAL) (c.-b.)	$ 84,517,261	$ 117,675,245	$ 202,192,506
e) Funded ratio (c./b.)	0%	0%	0%
f) Annual covered payroll	$ 40,797,678	$ 73,126,499	$ 113,924,177
g) UAL as percentage of covered payroll	207%	161%	177%
h) Normal Cost for the Fiscal Year 2011*	$ 1,809,575	$ 2,962,397	$ 4,771,972
i) Amortization of UAL for FY2011**	$ 4,533,985	$ 6,312,767	$ 10,846,752
j) Annual Required Contribution (ARC) for Fiscal Year 2011 (h.+i.)*	$ 6,343,560	$ 9,275,164	$ 15,618,724
k) Estimated Town Contribution for FY2011	$ 4,208,109	$ 6,274,322	$ 10,482,431
l) Increase in annual cost to fund the Plan (j.-k.)	$ 2,135,451	$ 3,000,842	$ 5,136,293

* Assuming that the contribution is paid in the middle of the fiscal year on January 1.

**30 years amortization with payments increasing 4.5% per year.

SECTION III - MEMBERSHIP DATA AND MEDICAL PREMIUM

Number of Participants Included in Valuation

	Town	School	Total
Actives	618	1,333	1,951
Retirees & Beneficiaries	616	976	1,592
Total	1,234	2,309	3,543

Monthly Premiums Effective January 1, 2010

Non-Medicare Plans:	Town	Retiree	Total
Blue Care Elect	75%	25%	
Individual	$1,018	$339	$1,357
Family	$2,530	$843	$3,373
Blue Choice	80%	20%	
Individual	$648	$162	$810
Family	$1,701	$425	$2,126
Fallon	87%	13%	
Individual	$1,051	$157	$1,208
Family	$2,839	$424	$3,263
HMO Blue	87%	13%	
Individual	$521	$78	$599
Family	$1,367	$204	$1,571

SECTION III - MEMBERSHIP DATA AND MEDICAL PREMIUM (Continued)

Monthly Premiums Effective January 1, 2010

Medicare Plans:	Town	Retiree	Total
Master Medical A	75%	25%	
Individual	$803	$267	$1,070
Medex	75%	25%	
Individual	$338	$113	$451
Medicare HMO Blue	87%	13%	
Individual	$300	$45	$345
Fallon Senior	87%	13%	
Individual	$207	$31	$238

Dental Plans:	Town	Retiree	Total
Dental Blue	15%	85%	
Individual	$6	$32	$38
Family	$15	$83	$98
Dental PPO	15%	85%	
Individual	$6	$32	$38
Family	$15	$83	$98

Life Insurance:	Town	Retiree	Total
	75%	25%	
Individual	$5	$2	$7

SECTION IV – REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

Assumed Pay-As-You-Go Interest Rate of 4%

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
July 1, 2010	$0	$371,529,899	$371,529,899	0%	$113,924,177	326%
July 1, 2008	$0	$389,842,640	$389,842,640	0%	$97,125,409	401%
July 1, 2006	$0	$303,479,411	$303,479,411	0%	n/a	n/a

Assumed Full Prefunding Interest Rate of 8%

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
July 1, 2010	$0	$202,192,506	$202,192,506	0%	$113,924,177	177%
July 1, 2008	$0	$216,902,994	$216,902,994	0%	$97,125,409	223%
July 1, 2006	$0	$173,037,736	$173,037,736	0%	n/a	n/a

DEVELOPMENT OF OPEB COST AND NET OPEB OBLIGATION (NOO) - 4.0%

Year Ending June 30	Annual Required Contribution	Interest on NOO	Amortization of NOO*	Annual OPEB Cost (1)+(2)-(3)	Actual Contribution	Change in NOO (4)-(5)	NOO Balance
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2008	18,140,870	0	0	18,140,870	12,181,487	5,959,383	5,959,383
2009	26,539,476	238,375	188,808	26,589,043	13,038,426	13,550,617	19,510,000
2010	27,798,877	780,400	618,124	27,961,153	13,851,398	14,109,755	33,619,755
2011	25,300,181	1,344,790	1,065,156	25,579,815			

* Assuming that the contribution is paid in the middle of the fiscal year on January 1.
30 years amortization with payments increasing 4.5% per year.

SECTION V – SCHEDULE OF EMPLOYER CONTRIBUTIONS

The Government Accounting Standards Board's Standard Number 45 "Accounting and Financial Reporting by Employers for Post Employment 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 4.5% for 30 years. The normal cost is expected to increase at 5%, the same rate as the assumed ultimate health care trend rate. The contributions were computed assuming that the contribution is paid in the middle of the fiscal year on January 1. Projected benefit payments/employer contributions reflect only the benefit for those individuals now employed or retired, not any future entrants.

SECTION V – SCHEDULE OF EMPLOYER CONTRIBUTIONS (Continued)

Assumed Pay-As-You-Go Interest Rate of 4%

Fiscal Year Ending in	Normal Cost	Amortization of UAL	Total ARC	Expected Benefit Payments
2011	13,529,211	11,770,970	25,300,181	10,482,431
2012	14,205,672	12,331,761	26,537,433	11,225,433
2013	14,915,956	12,908,123	27,824,079	11,992,025
2014	15,661,754	13,505,060	29,166,814	12,684,507
2015	16,444,842	14,126,904	30,571,746	13,440,341
2016	17,267,084	14,773,775	32,040,859	14,170,807
2017	18,130,438	15,448,723	33,579,161	14,989,919
2018	19,036,960	16,151,295	35,188,255	15,864,105
2019	19,988,808	16,882,173	36,870,981	16,662,834
2020	20,988,248	17,646,348	38,634,596	17,482,463
2021	22,037,660	18,445,972	40,483,632	18,193,430
2022	23,139,543	19,287,541	42,427,084	19,001,131
2023	24,296,520	20,171,253	44,467,773	19,736,579
2024	25,511,346	21,102,859	46,614,205	20,456,219
2025	26,786,913	22,086,599	48,873,512	21,186,669
2026	28,126,259	23,126,116	51,252,375	22,100,944
2027	29,532,572	24,219,704	53,752,276	22,688,146
2028	31,009,201	25,382,194	56,391,395	23,261,696
2029	32,559,661	26,618,990	59,178,651	24,265,515
2030	34,187,644	27,921,478	62,109,122	25,312,653
2031	35,897,026	29,293,321	65,190,347	26,404,978
2032	37,691,877	30,738,386	68,430,263	27,544,440
2033	39,576,471	32,260,761	71,837,232	28,733,074
2034	41,555,295	33,864,767	75,420,062	29,973,001
2035	43,633,060	35,554,968	79,188,028	31,266,436
2036	45,814,713	37,336,188	83,150,901	32,615,686
2037	48,105,449	39,213,525	87,318,974	34,023,161
2038	50,510,721	41,192,364	91,703,085	35,491,373
2039	53,036,257	43,278,399	96,314,656	37,022,943
2040	55,688,070	45,477,643	101,165,713	38,620,606
2041	58,472,474	47,796,452	106,268,926	40,287,213

SECTION V – SCHEDULE OF EMPLOYER CONTRIBUTIONS (Continued)

Assumed Full Prefunding Interest Rate of 8%

Fiscal Year Ending in	Normal Cost	Amortization of UAL	Total ARC	Expected Benefit Payments
2011	4,771,972	10,846,752	15,618,724	10,482,431
2012	5,010,571	11,334,856	16,345,427	11,225,433
2013	5,261,100	11,844,925	17,106,025	11,992,025
2014	5,524,155	12,377,947	17,902,102	12,684,507
2015	5,800,363	12,934,955	18,735,318	13,440,341
2016	6,090,381	13,517,028	19,607,409	14,170,807
2017	6,394,900	14,125,294	20,520,194	14,989,919
2018	6,714,645	14,760,932	21,475,577	15,864,105
2019	7,050,377	15,425,174	22,475,551	16,662,834
2020	7,402,896	16,119,307	23,522,203	17,482,463
2021	7,773,041	16,844,676	24,617,717	18,193,430
2022	8,161,693	17,602,686	25,764,379	19,001,131
2023	8,569,778	18,394,807	26,964,585	19,736,579
2024	8,998,267	19,222,573	28,220,840	20,456,219
2025	9,448,180	20,087,589	29,535,769	21,186,669
2026	9,920,589	20,991,531	30,912,120	22,100,944
2027	10,416,618	21,936,150	32,352,768	22,688,146
2028	10,937,449	22,923,277	33,860,726	23,261,696
2029	11,484,321	23,954,824	35,439,145	24,265,515
2030	12,058,537	25,032,791	37,091,328	25,312,653
2031	12,661,464	26,159,267	38,820,731	26,404,978
2032	13,294,537	27,336,434	40,630,971	27,544,440
2033	13,959,264	28,566,574	42,525,838	28,733,074
2034	14,657,227	29,852,070	44,509,297	29,973,001
2035	15,390,088	31,195,413	46,585,501	31,266,436
2036	16,159,592	32,599,207	48,758,799	32,615,686
2037	16,967,572	34,066,171	51,033,743	34,023,161
2038	17,815,951	35,599,149	53,415,100	35,491,373
2039	18,706,749	37,201,111	55,907,860	37,022,943
2040	19,642,086	38,875,161	58,517,247	38,620,606
2041	20,624,190	0	20,624,190	40,287,213

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

All Groups

Interest	Full Prefunding: 8.0%, net of investment expenses Pay-As-You-Go: 4.0%, net of investment expenses
Actuarial Cost Method:	Projected Unit Credit
Mortality: – Healthy:	The RP-2000 Combined Healthy Table.
–Disabled:	The RP-2000 Combined Healthy Table set forward 2 years.

Medical Care Inflation:

Year	Inflation Rate Current Valuation	Inflation Rate Prior Valuation
2008	N/A	7.0%
2009	N/A	6.5%
2010	8.0%	6.0%
2011	7.5%	5.5%
2012	7.0%	5.0%
2013	6.5%	5.0%
2014	6.0%	5.0%
2015	5.5%	5.0%
2016+	5.0%	5.0%

Dental Care Inflation: 4%

Participation: 95% (100% for prior valuation) of future Town and School retirees are assumed to participate in the retiree medical plan. 45% (50% for prior valuation) of future Town and School retirees are assumed to participate in the retiree dental plan.

Marital status: 80% of Town employees and 60% of School employees are assumed to have a covered spouse at retirement. Wives are assumed to be three years younger than their husbands.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS (Continued)

Amortization period: 30-year level percent of pay assuming 4.5% increasing payments. Open basis for the Pay-as-you-go method forecast. Closed basis for the full Prefunding method forecast. For a closed basis, the amortization period is a specific number of years that is counted from one date, declining to zero with the passage of time.

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%

Current Employees: Current active employees who are assumed to retire prior to age 65 are valued with a weighted-average current cost. This weighted-average current cost is based on the medical plan coverage of current retirees under age 65.

At age 65, active participants are assumed to participate in the same manner as current retirees over age 65 in Medicare Supplemental plans.

Pre-Age 65 Retirees: Current retirees, spouses and beneficiaries who are under age 65 are assumed to remain in their current medical plan until age 65. At age 65, all participants are assumed to participate in Medicare supplement plan in the same proportions as current post 65 retirees.

Post-Age 65 Retirees: Current retirees and spouses over age 65 remain in their current medical plan until death.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS (Continued)

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
25	.02%		
30	.03		
35	.06		
40	.10		
45	.15		
50	.19	1.0%	1.5%
55	.24	2.0	5.5
60	.28	12.0	5.0
62	.30	30.0	15.0
65	.30	40.0	15.0
69		30.0	20.0

Years of Service	Rates of Withdrawal
0	15.0%
1	12.0%
2	10.0%
3	9.0%
4	8.0%
5	7.6%
10	5.4%
15	3.3%
20	2.0%
25	1.0%
30+	0.0%

It is assumed that 45% of all disabilities are ordinary and 55% are service connected.

Group 4

Age	Disability	Service Retirements
25	0.20%	
30	0.30	
35	0.30	
40	0.30	
45	1.00	1.0%
50	1.25	2.0
55	1.20	15.0
60	0.85	20.0
62	0.75	25.0
65	0.00	100.0
69		

Years of Service	Rates of Withdrawal
0	1.5%
1	1.5
2	1.5
3	1.5
4	1.5
5	1.5
6	1.5
7	1.5
8	1.5
9	1.5
10	1.5
11+	0.0

It is assumed that 10% of all disabilities are assumed to be ordinary and 90% are service connected.

Method Changes: The calculation of the estimated gross annual per capita costs was changed from a retiree and active blended aging method to a retiree blended aging method. This change is to reflect the fact that active and retirees have separate plans and medical rates.

SCHEDULE B – CONSIDERATION OF HEALTH CARE REFORM

Summary of Effects of Selected Provisions

Early Retiree Reinsurance Program – Effective 6/1/2010: Due to the short-term nature of the payments expected to be received under this program, we did not feel it would be appropriate to include the impact of this program on long-term GASB 45 liabilities.

Removal of Lifetime Maximum The elimination of the lifetime maximums would have a negligible impact on the retiree health plan obligations since the plans have relatively high lifetime maximums of $2 million or none.

Medicare Advantage Plans - Effective 1/1/2011: The law provides for reductions to the amounts that would be provided to Medicare Advantage plans starting in 2011. The Town offer Medicare Advantage plans. Payments are not reflected as on ongoing offsetting item in GASB 45 valuations, and so no direct impact is reflected

Expansion of Child Coverage to Age 26: Since few retirees cover children on retiree health plans, this provision have a relatively small effect on the gross benefit cost.

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

Excise Tax on High-Cost Employer Health Plans (aka Cadillac Tax) - Effective 1/1/2018 There is considerable uncertainty about how the tax would be applied, and considerable latitude in grouping of participants for tax purposes. Based on a preliminary projection of the calculation on a blended pre-65/post-65 retiree coverage basis, the estimated Cadillac Tax is zero.

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 C - SUMMARY OF PROGRAM PROVISIONS

Retirement Eligibility:	For an employee to be eligible for service retirement (also referred to as superannuation), one of the following conditions must be met (i) completion of 20 years of service (ii) for an employee hired prior to January 1, 1978, attainment of age 55 as an active member (iii) for an employee hired on or after January 1, 1978, attainment of age 55 as an active member and completion of ten years of service
Disability Eligibility:	10 years of service and under age 55 for Ordinary. No age or service requirements for Accidental.
Pre-65 Benefit:	Retiree, spousal, family, and beneficiary coverage under the plan elected at retirement.
Post-65 Benefit:	Retiree, spousal, family, and beneficiary coverage under the plan elected at retirement. If eligible for Medicare, Retiree and spouse must enroll in Medicare and a supplement plan. If not eligible for Medicare, Retiree and spouse can elect a non Medicare plan.
Medical Plan Costs:	The estimated retiree blended age-adjusted gross annual per capita costs (retiree and active blended age-adjusted gross annual per capita costs was used for the prior valuation) were determined as follows.

	Future Retiree	Current Retiree
Age 64	$11,192	$11,192
Age 65	$4,087	$4,441

Medical Contribution:	Retirees pay contributions for medical coverage range from 13% to 25% of the plan premiums depending on the plan.
Dental Costs:	The Town agrees to pay 15% of the cost while retirees are responsible for the remaining 85% of the cost. There is no maximum payment on behalf of the Town.
Life Insurance:	Retirees are entitled to a life insurance benefit of $5,000. The Town agrees to pay 75% of the cost while retirees are responsible for the remaining 25% of the cost.
Medicare Part B Reimbursement:	The Town will make a contribution of $50 per month to Medicare recipient.

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.

SCHEDULE D - GLOSSARY OF TERMS (Continued)

Covered payroll
Annual compensation paid to active employees covered by an OPEB plan. If employees also are covered by a pension plan, the covered payroll should include all elements included in compensation on which contributions to the pension plan are based. For example, if pension contributions are calculated on base pay including overtime, covered payroll includes overtime compensation.

Defined benefit OPEB plan
An OPEB plan having terms that specify the benefits to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based on one or more factors such as age, years of service, and compensation), or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums).

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

Funding policy
The program for the amounts and timing of contributions to be made by plan members, employer(s), and other contributing entities (for example, state government contributions to a local government plan) to provide the benefits specified by an OPEB plan.

Healthcare cost trend rate
The rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

Investment return assumption (discount rate)
The rate used to adjust a series of future payments to reflect the time value of money.

Level dollar amortization method
The amount to be amortized is divided into equal dollar amounts to be paid over a given number of years; part of each payment is interest and part is principal (similar to a mortgage payment on a building). Because payroll can be expected to increase as a result of inflation, level dollar payments generally represent a decreasing percentage of payroll; in dollars adjusted for inflation, the payments can be expected to decrease over time.

Level percentage of projected payroll amortization method
Amortization payments are calculated so that they are a constant percentage of the projected payroll of active plan members over a given number of years. The dollar amount of the payments generally will increase over time as payroll increases due to inflation; in dollars adjusted for inflation, the payments can be expected to remain level.

SCHEDULE D - GLOSSARY OF TERMS (Continued)

Net OPEB obligation
The cumulative difference since the effective date of this Statement between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt. It will be included as a balance sheet entry on the financial statements.

Normal cost
That portion of the Actuarial Present Value of OPEB benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. It is the value of benefits to be accrued in the valuation year by active employees.

OPEB-related debt
All long-term liabilities of an employer to an OPEB plan, the payment of which is not included in the annual required contributions of a sole or agent employer (ARC) or the actuarially determined required contributions of a cost-sharing employer. Payments generally are made in accordance with installment contracts that usually include interest. Examples include contractually deferred contributions and amounts assessed to an employer upon joining a multiple-employer plan.

Other postemployment benefits
Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, excluding benefits defined as termination offers and benefits.

Pay-as-you-go
A method of financing a OPEB plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

Required supplementary information (RSI)
Schedules, statistical data, and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity.