The City of Kyle, Texas
Postretirement Medical Plan

GASB 45 Actuarial Valuation of Postretirement Medical Plan Expense and Benefit Obligation
for the
Fiscal Year October 1, 2012 – September 30, 2013

February 24, 2014

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Key Results

This section documents the key GASB Statement No. 45 (GASB 45) valuation and accounting results related to the employer-provided subsidies in the City of Kyle Postretirement Medical Plan. GASB 45 requires the following key measurements to be disclosed:

Actuarial Accrued Liability (AAL) - The amount of subsidies expected to be paid to current retirees and current active members (future retirees) that have already been earned, measured in today's dollars. Also referred to as the GASB 45 liability or OPEB Liability.

Annual Required Contribution (ARC) - The annual amount required under the actuarial cost method and funding policy for amortizing the unfunded actuarial accrued liability. It is made up of the normal cost (the amount earned in the next year) plus the amortization of the unfunded AAL.

Annual OPEB Cost - The ARC plus the amortization of the Net OPEB Obligation (NOO, see next bullet point). The Annual OPEB Cost is the expense for financial reporting.

Net OPEB Obligation (NOO) - The cumulative difference between the Annual OPEB Cost and actual employer contributions. The NOO is the balance sheet liability for financial reporting.

The table on the following page shows the above results. The City of Kyle has elected to amortize the Actuarial Accrued Liability over a 30 year period on a level dollar method as allowed by GASB 45.

Exhibit 1

DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTION AND NET OPEB OBLIGATION

For the Year October 1, 2012 through September 30, 2013

1	**OPEB liability (Accrued Actuarial Liability) at October 1, 2012**			$ 877,418
Annual Required Contribution				
2	**Annual Amortization**	(level payments)		
	30 years	implementation OPEB liability	$ 53,866	
	15 years	gains and losses (level dollar)	0	
				$ 53,866
3	**Normal Cost (Normal Cost)**			67,699
4	**Annual Required Contribution (ARC)** (Normal Cost + amortization)			$ 121,565
Annual OPEB Cost				
5	**Interest on Net OPEB Obligation (NOO)**			-
6	**Amortization of Net OPEB Obligation**			-
7	**Annual OPEB Cost**			$ 121,565
Net OPEB Obligation				
8	**Employer Contributions** (expected claims less contributions)			(4,591)
9	**Change in Net OPEB Obligation for the year ended September 30, 2013**			$ 116,974
10	**Net OPEB Obligation at end of prior year September 30, 2012**			$ -
11	**Estimated Net OPEB Obligation at September 30, 2013 9 + 10**			$ 116,974

Key assumptions

Actuarial Cost Method:	Projected Unit Credit
Discount rate	4.50%
Healthcare trend and contribuion increases	4.62% in 2013 graded to 4.87% in 2060
Acceptance rate - medical (civilians)	100%
Acceptance rate - medical (police)	100%
Mortality	RP2000p
Turnover and retirement rates	Municipal experience

Exhibit 2

FUNDED STATUS AT THE END OF THE FISCAL YEAR

1	**OPEB liability (Accrued Actuarial Liability) at October 1, 2012**	$	877,418
2	**Interest**		39,484
3	**Normal Cost with interest**		67,699
4	**Claims net of retiree contributions**		(4,591)
5	**OPEB liability (accrued actuarial liability) at September 30, 2013**	$	979,908

Exhibit 3 traces the change in the Accrued Actuarial Liability (OPEB Liability) from the beginning to the end of the year.

Discussion

OPEB

Other post-employment benefits (OPEB) are benefits that are provided to retired employees beyond those provided by their pension plans. Such benefits include medical, prescription drug, life, dental, vision, disability, and long-term care insurance. The City of Kyle provides medical and prescription drug coverage for retirees and their dependents who elect to make the required contributions..

The OPEB relationship between the City of Kyle and its employees and retirees is not formalized in a contract or plan document, only a few sentences in the administrative policy manual. These benefits are considered for accounting purposes to be provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the City and plan members. This understanding is based on communications between the employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs; it may not be a long term legal commitment

Implicit Subsidy

The **implicit subsidy** is not a direct payment from the employer on behalf of the member but rather stems from retiree contribution levels that are less than the claims cost at retiree ages. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retirees.

GASB Statements No. 43 and 45

In the past, these subsidies have not been projected and accounted for under an accrual basis. Accrual accounting is meant to match the timing between when something occurs and when it is accounted for. In this case, it is meant to match the expense to the year in which the benefits are earned by the member. Pay-as-you-go funding is when the contributions are made when the cost occurs (after retirement). This cost is expensed as Kyle pays the current year's subsidies. However, the unfunded liability, the difference between what members are accruing and what Kyle has been paying, is growing and is not accounted for under the pay-as-you-go method. According to GASB, Statements No. 43 and 45 were created in an attempt to:

- Create financial transparency,
- Create better alignment between public and private sector accounting,
- Provide clarity among bargaining groups to show the true cost of benefits over time,
- Provide employers knowledge of the true cost of benefits over time,
- Provide investors knowledge of the true long-term liabilities; and,

- ❑ Show the decision-makers a cost that they need to recognize.

GASB Statement No. 45 requires each employer to calculate their OPEB liability. In addition to the overall liability, GASB requires that the ARC must be calculated. The ARC is the annual amount required under the actuarial cost method and funding policy for amortizing the unfunded actuarial accrued liability. GASB does not require that employers actually contribute the ARC each year, just that it is recognized so that all stakeholders can see how adequately the liability is being funded.

The City of Kyle has adopted GASB 45 reporting effective with the 2012-13 fiscal year.

Actuarial Valuation

In order to determine the GASB 45 liabilities, an actuarial valuation must be performed. An actuarial valuation is a way to determine what benefits will be paid throughout the future lifetimes of current members and discount those payments back to the present. The result is the present value of future benefits. For example, if you had a dollar amount today, which equaled the present value of future benefits, that amount could be invested, accrue earnings during the current plan members' lifetimes, and be paid out in a benefit stream when the members are eligible. The total amount remaining when there are no more benefits being paid would be zero. In this case, the benefits being paid out are the subsidies that are being paid for the City of Kyle retirees.

An actuarial valuation takes inputs such as participant data (who is receiving the benefits), benefit provisions (what are the benefits), and assumptions (how do we expect the members and the economy to behave). Participant data includes the members' ages, membership service, plan selection, etc. Benefit provisions include the structure of the benefits that the members receive; in this case, the subsidies supporting retiree medical benefits. Assumptions include the interest rate (investment return), health care inflation rates, general inflation rates, decrement rates, participation rates, Medicare coverage, etc.

The inputs are taken and valued using an actuarial cost method. The method chosen will allocate costs between past and future plan membership service. Distinct actuarial cost methods will produce somewhat different allocations since each method allocates cost a little bit differently. The inputs and the method are put into valuation software to determine the liability and ARC. Essentially, the valuation software uses the inputs to determine when a benefit will be paid, how much the benefit will be, and how long it will be paid to each member.

Funding Policy

In the past, these subsidies were funded on a pay-as-you-go basis, meaning that employers paid these costs as they occurred. This generally means today's taxpayers are paying for benefits that were accrued in the past. This funding policy is in conflict with the principle of intergenerational equity, which requires that a member's benefits be funded over the member's working lifetime. The idea is for the member's benefits to be paid by the taxpayers who benefit from that member's service, as opposed to making future taxpayers, who do not benefit from that member's service, pay for the member's benefits.

In the future, these liabilities can continue to be funded on a pay-as-you-go basis, or they can be pre-funded. If they continue to be funded on a pay-as-you-go basis, then a NOO (Net OPEB Obligation) will accrue as the annual contributions fall short of the ARC. The results are lower current contributions in the short-run, a growing liability, and continued conflict with the principle of intergenerational equity. In addition, if a pay-as-you-go funding method is selected, there will be no assets to invest; therefore, the interest discount rate must be lower, in the range of 4 to 5 percent. A lower interest discount rate will mean the reported overall liability will be larger.

If, instead, these liabilities are fully pre-funded, then contributions equal to the ARC must be made annually and placed in an irrevocable trust. If the choice to fully pre-fund is made, then a NOO will not accrue. The results are larger current contributions in the short-run, a lower unfunded liability, and adherence to the principle of intergenerational equity. In addition, if the choice is made to pre-fund there will be assets to invest; the investment return applied to the liabilities will reflect the expected long-term yield of the assets used to finance the payment of the benefits. If these assets are invested similarly to those in a typical retirement plan, an interest discount rate in the range of 7 to 8 percent might be used. A higher interest discount rate will mean the reported overall liability will be smaller.

It is our understanding that the City of Kyle has established a dedicated (earmarked) reserve account for the retiree medical benefits plan. The account had a balance of $521,458 as of September 30, 2013. Because this money is not held in an irrevocable trust, the assets cannot be used to offset the actuarial liability of the retiree medical plan in the accounting calculations. (See the definition of “Plan Assets” in the Glossary). The City could, in the future, choose to transfer the funds to a true employee benefits trust fund with an independent trustee. If this were done, only the Actuarial Accrued Liability less trust assets would be subject to amortization. The discount rate used in the actuarial valuation could also be adjusted to reflect the asset allocation of the trust.

SUMMARY OF PLAN PROVISIONS

Eligibility

Group 1

5 or more years of continuous service on 4/1/2009, and
25 or more years of continuous service at retirement

Group 2

Fewer than 5 years of continuous service on 4/1/2009, and
25 or more years of continuous service at retirement

Group 3

Hired after 4/1/2009

Benefits

Group 1

Pre Age 65: Medical, prescription drugs, dental, vision and $2,000 life insurance – fully paid by the City for the retiree
Post Age 65: Medicare supplement and prescription drugs

Group 2

$300 monthly stipend towards medical and prescription drug coverage (both before and after age 65). The retiree pays any additional cost. The retiree pays the full cost of spouse's coverage.

Group 3

No retiree benefits

Medical plan provisions

	Network	Non-Network
Calendar Year Deductible	$250	$500
Out-of-Pocket Limit	$2,000 i/ $4,000 f	None
Coinsurance	85%	55%
Preventive care and annual exam	100%	100%

Prescription Drugs

Generic Drug	$0 (value) $10 (other)
Non-generic Drug	$38 / $60 (best price/non-best price

Dental III	$30.14/month employer cost per employee 80%/ 50% $2,000 annual maximum
Vision B	$9.00/month employer cost per employee

VALUATION ASSUMPTIONS

Economic assumptions

- **Discount rate** 4.0% per annum

- **Health care cost trend**

  Group 1 under age 65: The healthcare trend assumption was revised effective with the year-end (6/30/2013) valuation of the Postretirement Benefit Obligation: Plan year dependent rates graded from 4.62% in 2013-14 to 4.87% in 2060-61. The same trend is applied to retiree contributions. The trend from 2012-13 to 2013-14 is 16.0% based on the actual change in medical premiums for the City of Guthrie for those periods.

  Healthcare trend for the next two years is based on projections by the Office of the Actuary, Centers of Medicare & Medicaid Services. Trend for subsequent years was developed using the Society of Actuaries Getzen healthcare economics model with inputs as follows:

Inflation	2.5%
Real GNP growth	1.7%
Income multiplier	1.4%
Technology	1.1%

The resulting trend rates are:

Year	Trend
2013	4.62%
2014	7.35%
2015	5.01%
2016	6.12%
2017	6.09%
2018	6.05%
2019	6.02%
2020	5.99%
2025	5.86%
2030	5.99%
2035	5.87%
2040	5.33%
2045	5.15%
2050	5.03%
2060	4.87%

The healthcare trend for Group 1 retirees after age 65 is assumed to be 5% per year.

CPI increases in the Group 2 specified benefit are assumed to be 3.0% per year.

Decrement assumptions

- **Mortality** RP2000 Mortality with cohort mortality projection

- **Terminations** Termination rates for civilian employees are based on the actual experience of the similar municipalities.

Rates per Thousand

Age	Rate
20	214.6
25	142.3
30	95.6
35	68.4
40	55.0
45	49.8
50	46.7
55	40.1
60	40.0

Additional rates per thousamd are added for the first 5 years:

Year	Addl Rate
1	215
2	140
3	95
4	65
5	40

Termination rates for police are 88% of the rates for civilians (based on TMRS assumption).

- **Retirement** Rates based on the actual experience of the TMRS municipalities.

Age	Male	Female
40-49	6%	6%
50-53	8%	8%
54	8%	11%
55-59	14%	11%
60	20%	28%
61	25%	28%
62-65	32%	28%
66-69	22%	22%
70	100%	100%

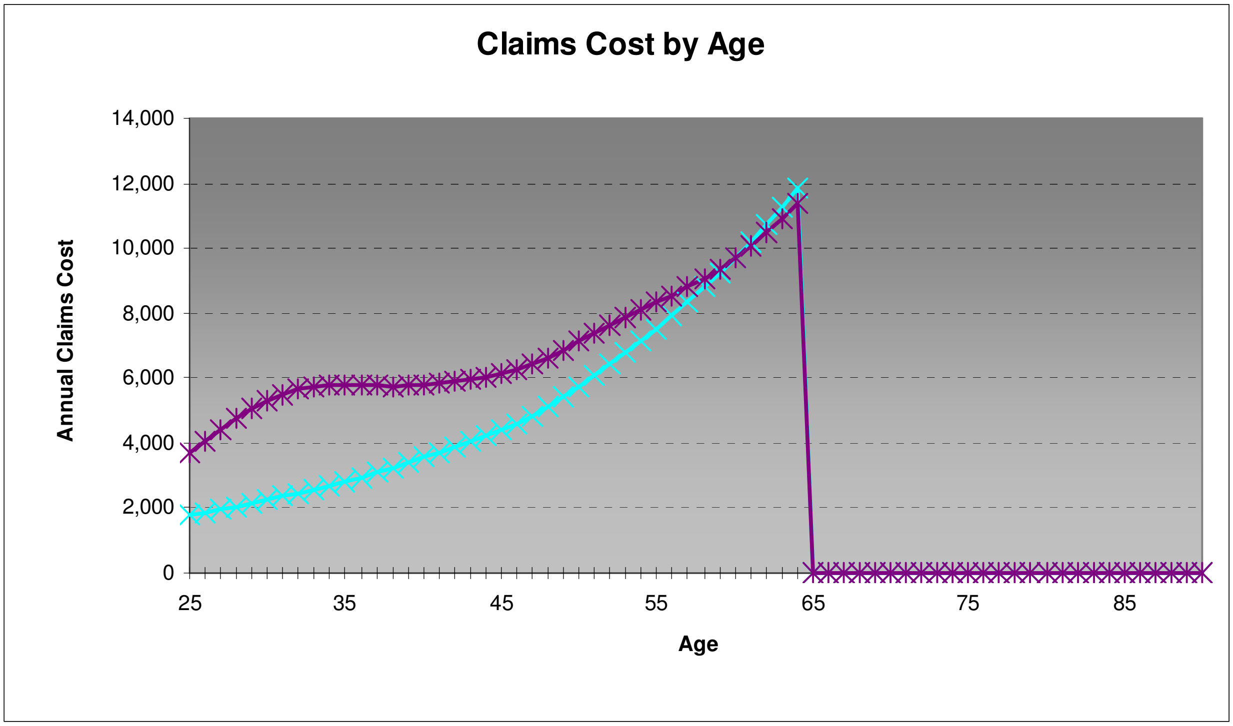
- **Participation** 100% of Group 2 employees are assumed to elect retiree medical coverage if they meet the eligibility requirements.

Medical claims

- **Claims by age** The claims table was developed by fitting a national age – gender claim curve to the age - gender census of active employees. The claims cost per average employee was then normalized to the actual premium rates for the City's medical coverage. Graph 1 on the next page shows the pattern of claims cost by age and sex.

- **Spouses** It is assumed that spouses if covered will pay the actuarial cost of their benefits and therefore are not included in the valuation.

Graph 1



Group 1 Pre Age 65 Claims Cost

2013-14 Claims Level

Age	Male	Female	Age	Male	Female
25	1,809	3,722	60	9,702	9,698
30	2,245	5,302	64	11,848	11,353
35	2,810	5,776	65	0	0
40	3,545	5,786	70	0	0
45	4,395	6,125	75	0	0
50	5,739	7,137	80	0	0
55	7,531	8,315	85	0	0

Group 1 Post Age 65 Claims Cost

Medicare Supplement and Rx (Group 1)

Fiscal Year 2012-13	$371.37 per month
Fiscal Year 2013-14	$386.32 per month

Actuarial Funding Method

The actuarial funding method chosen will determine the allocation of costs. For example, one method may allocate all costs between now and the time a member is fully eligible to retire whereas another method may allocate all costs between now and the time a member is expected to retire (several years after retirement eligibility). One method might allocate costs as a level dollar amount while another might allocate costs as a level percentage of payroll. Using a different method will provide slightly different results. In short, different methods will relatively frontload the costs or backload the costs.

GASB allows the selection of one of six different actuarial methods. The method selected for this report was Projected Unit Credit (PUC). This is the method required by FASB 106 in the private. PUC is known to backload costs compared with the Entry Age Normal cost method. This is reasonable to do for OPEB liabilities, which are "soft liabilities' because it allows for the realization of the assumptions before most payments are made.

GASB also allows for the selection of the amortization period (not to exceed thirty years). A longer amortization period means that the unfunded liability is being smoothed, and funded, over a longer period of time. This can be compared to a mortgage being paid off over a longer period of time (lower payments, but more interest). Thirty years was selected as the amortization period for this report.

POPULATION SUMMARY

The exhibits in this section describe the census data used in the valuation. The census date was September 30, 2013.

AGE AND SERVICE OF ACTIVE PARTICIPANTS

9/30/2013

Civilian Employees

Group 1

Age Group	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 -	All Service
					Years of Service				
20 - 24									
25 - 29									
30 - 34									
35 - 39			2						2
40 - 44			2						2
45 - 49			1	1					2
50 - 54		1	1		1				3
55 - 59		1				1			2
60 - 64				1	1				2
65 - 69									
70 -									
Totals		**2**	**6**	**2**	**2**	**1**			**13**

Group 2

Age Group	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 -	All Service
					Years of Service				
20 - 24									
25 - 29	2	1							3
30 - 34		4							4
35 - 39		8							8
40 - 44	5	4							9
45 - 49		6							6
50 - 54	1	4							5
55 - 59		1							1
60 - 64									
65 - 69									
70 -		1							1
Totals	**8**	**29**							**37**

AGE AND SERVICE OF ACTIVE PARTICIPANTS

9/30/2013

Police

Group 1

	Years of Service								
Age Group	**0 - 4**	**5 - 9**	**10 - 14**	**15 - 19**	**20 - 24**	**25 - 29**	**30 - 34**	**35 -**	**All Service**
20 - 24									
25 - 29									
30 - 34			1						1
35 - 39			3	1					4
40 - 44									
45 - 49									
50 - 54				1					1
55 - 59									
60 - 64									
65 - 69									
70 -									
Totals			**4**	**2**					**6**

Group 2

	Years of Service								
Age Group	**0 - 4**	**5 - 9**	**10 - 14**	**15 - 19**	**20 - 24**	**25 - 29**	**30 - 34**	**35 -**	**All Service**
20 - 24									
25 - 29									
30 - 34		1							1
35 - 39		6							6
40 - 44		1							1
45 - 49		1							1
50 - 54									
55 - 59		1							1
60 - 64									
65 - 69									
70 -									
Totals		**10**							**10**

SUMMARY OF NONACTIVE PARTICIPANTS

9/30/2013

Age Group	Males Count	Females Count	Total Count
Retired Participants in Payment Status			
40 - 49			
50 - 54			
55 - 59			
60 - 64			
65 - 69	1		1
70 - 74			
75 - 79			
80 - 84			
85 - 89			
90 - 110			
Totals	**1**	**0**	**1**
Grand Totals	**1**	**0**	**1**
Ave amount			

COSTS AND DISCLOSURE ITEMS UNDER GASB 45

This section illustrates the detailed results of the actuarial valuation of costs and benefit obligations measured under GASB Statement 45. The valuation date for the calculations is September 30, 2013.

SUMMARY OF VALUATION RESULTS

Valuation Date September 30, 2013

	Civilian employees			Police			Retirees		
	Number	*Ave Age*		*Number*	*Ave Age*		*Number*	*Ave Age*	
Employees									
Under eligibility age	**49**	**44.8**		**16**	**40.3**				
At or above eligibility age	**1**	**57.0**		**0**					
Total	**50**	**45.1**		**16**	**40.3**				
Covered retirees							**1**	**69.0**	
Covered retiree spouses							**0**		
	Employee	**Spouse**	**Total**	**Employee**	**Spouse**	**Total**	**Retirees**		**Grand Totals**
PVB pre65 claims	311,298	-	311,298	211,216	-	211,216	-		522,514
PVB	1,008,879	-	1,008,879	608,854	-	608,854	76,225		1,693,958
less PV EE Cont	0	0	0	0	0	0	0		0
Net PVB	**1,008,879**	**0**	**1,008,879**	**608,854**	**0**	**608,854**	**76,225**		**1,693,958**
GASB 45 Liability (AAL)	618,348	-	618,348	285,018	-	285,018	76,225		979,591
Less ee paid GASB 45 Liability (AAL)	0	0	0	0	0	0	0		0
Net GASB 45 Liability (AAL)	**618,348**	**0**	**618,348**	**285,018**	**0**	**285,018**	**76,225**		**979,591**
ABO of eligibles	123,005	-	123,005	-	-	0	76,225		199,230
Less ee paid	0	0	0	0	0	0	0		0
Net elg GASB 45 Liability (AAL)	**123,005**	**0**	**123,005**	**0**	**0**	**0**	**76,225**		**199,230**
Normal Cost (EOY)	44,320	-	44,320	26,412	-	26,412	0		70,733
Less ee paid	0	0	0	0	0	0	0		0
Net Normal Cost	**44,320**	**0**	**44,320**	**26,412**	**0**	**26,412**	0		**70,733**
Death benefit Normal Cost			9			4			13
Total Normal Cost			44,329			26,417			**70,746**
Death benefit GASB 45 liability			261			57	0		**317**
Total GASB 45 liability (AAL)			618,609			285,074	76,225		**979,908**

Certification

This report presents the actuarial position of the City of Kyle Postretirement Medical Plan as of September 30, 2013, and develops the Annual OPEB cost for the 2012-13 fiscal year under GASB 45 and in accordance with generally accepted actuarial principles.

The valuation is based on our understanding of the substantive plan provisions as outlined in this report, census data provided by the City of Kyle, and information as to healthcare costs for the City's active and retired participants. The healthcare cost pattern shown in this report was selected to match the actual budgeted cost of the entire City medical plan (including both active and retired participants).

In our opinion, each assumption used in combination to calculate liabilities and costs represents our best estimate of anticipated experience under the plan and is reasonably related to the plan experience and to reasonable expectations. However, the most appropriate assumption for different purposes may vary and use of the values in this report for purposes other than those stated should be avoid or discussed with the actuary.

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DEAN ACTUARIES, LLC

2/24/2014 ________________________

Date

Charles E. Dean, FSA, FCA
Enrolled Actuary 11-01249

2/24/2014 ________________________

Date

Sean M. Sullivan, FSA
Enrolled Actuary 11-03649

Glossary of OPEB Terms

Accrual Accounting - A system of accounting in which revenues are recorded when earned and outlays are recorded when goods are received or services performed, even though the actual receipt of revenues and payment for goods or services may occur, in whole or in part, at a different time. i

Actuarial Value of Assets - The value of cash, investments, other assets and property belonging to an OPEB trust, pension fund or similar entity, as used by the actuary for the purpose of actuarial valuation. Some funds may be restricted for other purposes, and smoothing of investment gains and losses often make the actuarial value of assets different from the market value of assets.

Agent multiple-employer plan (agent plan) - An aggregation of single employer plans, with pooled administrative and investment functions. Separate accounts are maintained for each employer so that the employer's contributions provide benefits only for the employees of that employer. A separate actuarial valuation is performed for each individual employer's plan to determine the employer's periodic contribution rate and other information for the individual plan, based on the benefit formula selected by the employer and the individual plan's proportionate share of the pooled assets. The results of the individual valuations are aggregated at the administrative level.

Annual Required Contribution - Normal Cost plus an amortization of the funding shortfall over a period of no more than 30 years.

Cash Basis Accounting - A system of accounting in which revenues are recorded when actually received and outlays are recorded when payment is made. ii

Cost-sharing multiple-employer plan - A single plan with pooling (cost-sharing) arrangements for the participating employers. All risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the employers. A single actuarial valuation covers all plan members, and the same contribution rate(s) applies for each employer.

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).

Discount Rate - The interest rate used to calculate present value of a series of future cash flows. Under GASB 45, the rate should be long term expected yield on the investments that are expected to be used to pay benefits as they come due. These would be plan investments for a funded plan, the employer's investments for a pay as you go plan [e.g. short term county investment pool], or a weighted average of expected plan and employer investments for a plan that is partially funded. iii

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 an 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) or plan administrator.

FASB - Financial Accounting Standards Board. Since 1973, the Financial Accounting Standards Board (FASB) has been the designated organization in the private sector establishing standards of financial accounting and reporting. iv.

GASB - Government Accounting Standards Board. The Governmental Accounting Standard Board (GASB) was organized in 1984 by the Financial Accounting Foundation (FAF) to establish standards of financial accounting and reporting for state and local governmental entities. Its standards guide the preparation of external financial reports of those entities. v

GFOA - Government Finance Officers Association. GFOA is the professional association of state/provincial and local finance officers in the United States and CanKyle, and has served the public finance profession since 1906. Approximately 16,000 GFOA members are dedicated to the sound management of government financial resources.

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 Subsidy - The difference between a premium rate charged to retirees for a particular benefit and the estimated rate that would have to be applicable to those retirees if that benefit was acquired for them as a separate group. vi

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

Irrevocable Contribution - Irrevocably transferred assets to a qualifying 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) or plan administrator. The preceding criteria preclude counting as [irrevocable] contributions (a) designations of net assets of a governmental or proprietary fund to be used for OPEB or (b) internal transfers of assets to a separate governmental or proprietary fund for the same purpose. Rather, such actions should be regarded as earmarking of employer assets. vii

Level Dollar Amortization - Funding a shortfall in OPEB assets with equal dollar payments over a designated number of years (no more than 30 years). The present value of the level payments equals the present value of unfunded liabilities, the UAAL.

Level Percent of Payroll Amortization - Funding a shortfall in OPEB assets as a level percent of payroll over a designated number of years (no more than 30 years). The present value of the payments equals the present value of unfunded liabilities, the UAAL. Level percent of payroll typically has lower payments in the early years than level dollar amortization. When using level payroll amortization, employee count is assumed to be constant, and the payroll differences arise from overall wage trends.

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. (GASB 45 only)

Normal Cost - The actuarially determined present value contribution needed to fund benefits which are earned for employee service rendered during the current year. Normal cost depends on many factors, including the interest rate used to discount future cashflows, and expected inflation.

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 in an equivalent arrangement, in which (a) employer contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, and (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.

OPEB - Other Post Employment 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.

OPEB expense - The amount recognized by an employer in each accounting period for contributions to an OPEB plan on the accrual basis of accounting. (GASB 45 only)

OPEB Trust - An entity other than a pension of retirement system which manages OPEB assets. In many respects it is similar to a pension fund for OPEB. For reasons detailed in GASB 45, contributions to an OPEB trust should be irrevocable in order to obtain the most favorable accounting treatment.

Pay-as-you-go funding - Paying benefits (such as pensions or OPEB) on a cash basis, with no money set aside for future liabilities which are already incurred.

POB - Pension Obligation Bond. Generally yielding taxable interest, POBs are issued to help fund a previously unfunded or underfunded pension liability.

Self funded plan - A plan whose benefits are not guaranteed in some manner by an insurance company.

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

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

UAAL - Unfunded Accrued Actuarial Liability. Actuarial Accrued Liability minus the Actuarial Value of Assets.

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i. Source: Congressional Budget Office
ii. Source: Congressional Budget Office
iii. Source: GASB 45 Statement Paragraph 120 (page 96).
iv. Source: www.fasb.org/facts/index.shtml
v. Source: www.gasb.org/facts/index.html
vi. Source: GASB 45 Statement Paragraph 96 (page 86).
vii. Source: GASB 45 Statement Paragraph 141 (page 105).