CITY OF SOMERVILLE

POST RETIREMENT BENEFITS PLAN

Actuarial Valuation Report
June 30, 2014

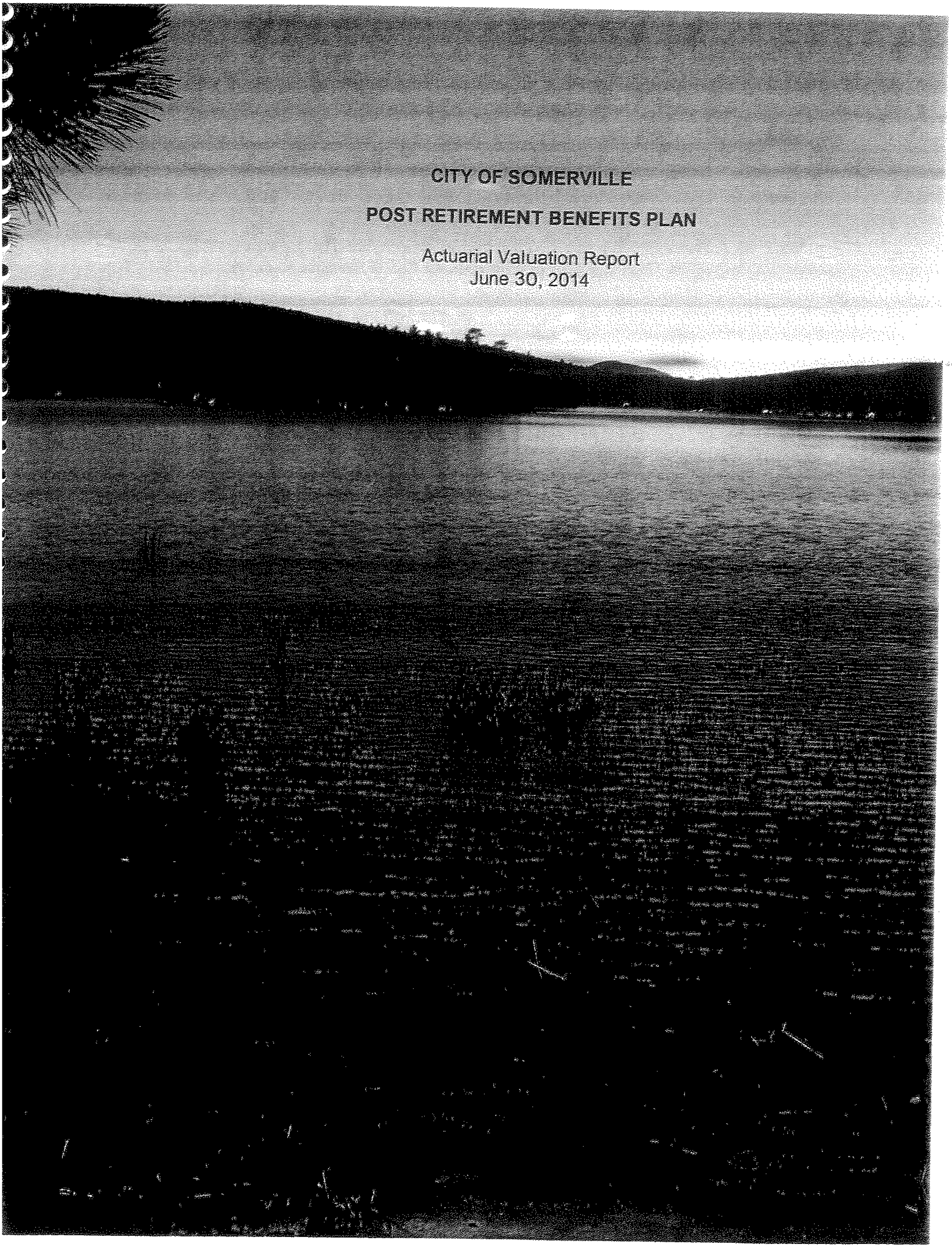

TABLE OF CONTENTS

SECTION I - OVERVIEW

The City of Somerville has engaged Sherman Actuarial Services, LLC (SAS) to prepare an actuarial valuation of their post-retirement benefits program as of June 30, 2014. This valuation was performed using employee census data, enrollment data, claims, premiums, participant contributions and plan provision information provided by personnel of the City of Somerville. 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 City'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."

This report is based on the participant data as of June 30, 2014, the plan provisions and the health plans offered as of July 1, 2014.

According to GASB principles, if the benefits are not prefunded, the rate earned by the General Asset Account over long term 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 4.0% scenario figures should be reflected in the City's financial statements based on the City's current Pay-as-You-Go funding approach. If the City were to commence funding the Annual Required Contribution instead of just paying benefits when due as it has in the past, the measurement would 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.

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

Daniel Sherman, ASA, MAAA, EA

December 3, 2014

Date

SECTION II - REQUIRED INFORMATION

		Pay-as-You-Go 4.0%		Full Prefunding 8.0%		
a) Actuarial valuation date		June 30, 2014		June 30, 2014		Difference
b) Actuarial Value of Assets	$	0	$	0	$	0
c) Actuarial Accrued Liability						
Active participants	$	149,702,188	$	70,998,451	$	78,703,737
Retired participants		135,553,465		91,390,560		44,162,905
Total AAL	$	285,255,653	$	162,389,011	$	122,866,642
d) Unfunded Actuarial Liability "UAL" [c - b]	$	285,255,653	$	162,389,011	$	122,866,642
e) Funded ratio [b / c]		0.0%		0.0%		0.0%
f) Annual covered payroll	$	112,256,322	$	112,256,322		
g) UAL as percentage of covered payroll		254.1%		144.7%		
h) Normal Cost for fiscal year 2014	$	9,419,769	$	3,363,722	$	6,056,047
i) Amortization of UAL for fiscal year 2014*	$	9,508,522	$	8,874,999	$	633,523
j) Interest to the end of the fiscal year	$	0	$	0	$	0
k) Annual Required Contribution "ARC" for fiscal year 2014 [h + i + j]	$	18,928,291	$	12,238,721	$	6,689,570
l) Estimated net claims cost	$	9,044,969	$	9,044,969	$	0

* 30-year amortization, increasing 4.0% per year

SECTION III - MEDICAL PREMIUMS

Monthly Premiums effective July 1, 2014

Health benefits are available to employees and retirees through a number of plans. Retirees contribute either 17.5% or 25% of the costs, depending on the plan elected. The following are gross monthly rates per subscriber for plans in which current City retirees can enroll:

	Individual	Family
Fallon Community Health Plan Direct Care	$483.21	$1.159.70
Fallon Community Health Plan Select Care	615.39	1,476.92
Harvard Pilgrim Independence Plan	686.12	1,674.20
Harvard Pilgrim Primary Choice Plan	548.89	1,339.36
Health New England	481.89	1,194.71
NHP Care	465.41	1,233.34
Tufts Health Plan Navigator	619.87	1,497.60
Tufts Health Plan Spirit	500.37	1,206.01
UniCare State Indemnity Plan/Basic with CIC	936.24	2,185.22
UniCare State Indemnity Plan/Basic without CIC	893.83	2,086.85
UniCare State Indemnity Plan/Community Choice	456.68	1,095.99
UniCare State Indeminity Plan/Plus	656.90	1,567.69

Medicare Supplemental Plans

Fallon Senior Plan	290.79
Harvard Pilgrim Medicare Enhance	394.79
Health New England Medicare	363.13
Tufts Health Plan Medicare Complement	348.39
Tufts Health Plan Medicare Preferred	266.56
Unicare State Indemnity Plan/Mediare Ext with CIC	379.45
Unicare State Indemnity Plan/Mediare Ext w/o CIC	368.63

SECTION IV – BREAKOUTS

Number of Employees	General Government	Public Safety	Education	Public Works	Culture and Recreation	Water Enterprise	Sewer Enterprise	Pension	Total
Actives	174	369	885	144	41	13	2	3	1,631
Retirees and Survivors (with benefits)	181	439	822	157	26	9	2	7	1,643
Total	355	808	1,707	301	67	22	4	10	3,274
Accrued Liability @ 4.0%									
Actives	12,522,066	48,740,592	69,812,819	12,952,012	3,989,879	1,241,708	259,305	183,807	149,702,188
Retirees and Beneficiaries	13,745,708	38,820,769	66,854,522	12,921,660	1,956,087	490,123	181,498	583,098	135,553,465
Total	26,267,774	87,561,361	136,667,341	25,873,672	5,945,966	1,731,831	440,803	766,905	285,255,653
Annual Required Contribution @ 4.0%									
Normal Cost with interest	890,811	2,731,245	4,891,753	627,842	191,053	60,681	9,174	17,210	9,419,769
Amortization of UAL with interest	875,592	2,918,712	4,555,578	862,456	198,199	57,728	14,693	25,564	9,508,522
Total	1,766,403	5,649,957	9,447,331	1,490,298	389,252	118,409	23,867	42,774	18,928,291
Estimated Net Claims Payments	761,395	2,050,803	3,686,176	711,126	140,210	34,970	10,346	29,059	7,424,085
Accrued Liability @ 8%									
Active	6,009,736	22,808,953	33,039,439	6,494,618	1,855,048	584,436	107,895	98,326	70,998,451
Retirees and Beneficiaries	9,540,579	25,835,336	45,073,856	8,709,800	1,336,633	367,934	117,649	408,773	91,390,560
Total	15,550,315	48,644,289	78,113,295	15,204,418	3,191,681	952,370	225,544	507,099	162,389,011
Annual Required Contribution @ 8%									
Normal Cost with interest	352,629	947,031	1,724,212	237,255	71,811	21,406	2,713	6,665	3,363,722
Amortization of UAL with interest	849,867	2,658,542	4,269,103	830,963	174,434	52,050	12,327	27,714	8,874,999
Total	1,202,496	3,605,573	5,993,315	1,068,218	246,245	73,456	15,040	34,379	12,238,721
Estimated Net Premium Payments	761,395	2,050,803	3,686,176	711,126	140,210	34,970	10,346	29,059	7,424,085
Difference	441,101	1,554,770	2,307,139	357,092	106,035	38,486	4,694	5,320	4,814,636

SECTION V - REQUIRED SUPPLEMENTARY INFORMATION

Schedule Of Funding Progress - 4.0%*

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, 2014	0	285,255,653	285,255,653	0.00%	112,256,322	254.1%
June 30, 2012	0	300,478,458	300,478,458	0.00%	84,899,992	353.9%
June 30, 2010	0	356,691,278	356,691,278	0.00%	98,234,425	363.1%
June 30, 2008	0	570,928,572	570,928,572	0.00%	161,325,500	353.9%

* Prior to 2012, the discount rate was 3.5%

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	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	33,234,694	0	0	33,234,694	13,690,506	19,544,188	19,544,188
2009	34,732,505	684,047	1,063,686	34,352,866	15,037,853	19,315,013	38,859,201
2010	21,398,650	1,360,072	1,122,841	21,635,881	10,581,409	11,054,472	49,913,673
2011	22,387,563	1,746,979	1,442,262	22,692,280	10,200,914	12,491,366	62,405,039
2012	19,026,496	2,184,176	1,803,201	19,407,471	10,036,871	9,370,600	71,775,639
2013	19,803,786	2,871,026	2,392,521	20,282,291	10,402,192	9,880,099	81,655,738
2014	18,928,291	3,266,230	2,721,858	19,472,663	9,044,970	10,427,692	92,083,431
2015	19,751,604	3,683,337	3,069,448	20,365,493	9,645,790	10,719,703	102,803,133

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 VI - SCHEDULE OF EMPLOYER CONTRIBUTIONS

Pay-as-You-Go Basis (4.0%)

Fiscal Year Ending In	Normal Cost	Amortization of UAL	ARC*	Estimated Claims Cost
2014	9,419,769	9,508,522	18,928,291	9,044,970
2015	9,843,659	9,907,945	19,751,604	9,645,790
2016	10,286,624	10,317,616	20,604,240	10,260,901
2017	10,749,522	10,738,120	21,487,642	10,973,901
2018	11,233,250	11,167,254	22,400,504	11,808,165
2019	11,738,746	11,601,963	23,340,709	12,153,810
2020	12,266,990	12,059,834	24,326,824	12,716,842
2021	12,819,005	12,535,194	25,354,199	13,206,121
2022	13,395,860	13,032,072	26,427,932	13,869,594
2023	13,998,674	13,546,269	27,544,943	14,412,915
2024	14,628,614	14,083,462	28,712,076	15,097,982
2025	15,286,902	14,640,693	29,927,595	15,777,391
2026	15,974,813	15,219,939	31,194,752	16,487,374
2027	16,693,680	15,822,067	32,515,747	17,229,306
2028	17,444,896	16,447,980	33,892,876	18,004,624
2029	18,229,916	17,098,616	35,328,532	18,814,832
2030	19,050,262	17,774,950	36,825,212	19,661,500
2031	19,907,524	18,477,995	38,385,519	20,546,267
2032	20,803,363	19,208,803	40,012,166	21,470,849
2033	21,739,514	19,968,470	41,707,984	22,437,038
2034	22,717,792	20,758,133	43,475,925	23,446,704
2035	23,740,093	21,578,973	45,319,066	24,501,806
2036	24,808,397	22,432,221	47,240,618	25,604,387
2037	25,924,775	23,319,152	49,243,927	26,756,585
2038	27,091,390	24,241,095	51,332,485	27,960,631
2039	28,310,503	25,199,428	53,509,931	29,218,859
2040	29,584,476	26,195,586	55,780,062	30,533,708
2041	30,915,777	27,231,058	58,146,835	31,907,725
2042	32,306,987	28,307,393	60,614,380	33,343,573
2043	33,760,801	29,426,201	63,187,002	34,844,033
2044	35,280,037	30,589,154	65,869,191	36,412,015

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

SECTION VI - SCHEDULE OF EMPLOYER CONTRIBUTIONS

Full Prefunding Basis (8.0%)

Fiscal Year Ending In	Normal Cost	Amortization of UAL	ARC*	Estimated Claims Cost
2014	3,363,722	8,874,999	12,238,721	9,044,970
2015	3,515,089	9,229,999	12,745,088	9,645,790
2016	3,673,268	9,599,199	13,272,467	10,260,901
2017	3,838,565	9,983,167	13,821,732	10,973,901
2018	4,011,300	10,382,494	14,393,794	11,808,165
2019	4,191,809	10,797,794	14,989,603	12,153,810
2020	4,380,440	11,229,706	15,610,146	12,716,842
2021	4,577,560	11,678,894	16,256,454	13,206,121
2022	4,783,550	12,146,050	16,929,600	13,869,594
2023	4,998,810	12,631,892	17,630,702	14,412,915
2024	5,223,756	13,137,168	18,360,924	15,097,982
2025	5,458,825	13,662,655	19,121,480	15,777,391
2026	5,704,472	14,209,161	19,913,633	16,487,374
2027	5,961,173	14,777,527	20,738,700	17,229,306
2028	6,229,426	15,368,628	21,598,054	18,004,624
2029	6,509,750	15,983,373	22,493,123	18,814,832
2030	6,802,689	16,622,708	23,425,397	19,661,500
2031	7,108,810	17,287,616	24,396,426	20,546,267
2032	7,428,706	17,979,121	25,407,827	21,470,849
2033	7,762,998	18,698,286	26,461,284	22,437,038
2034	8,112,333	19,446,217	27,558,550	23,446,704
2035	8,477,388	20,224,066	28,701,454	24,501,806
2036	8,858,870	21,033,029	29,891,899	25,604,387
2037	9,257,519	21,874,350	31,131,869	26,756,585
2038	9,674,107	22,749,324	32,423,431	27,960,631
2039	10,109,442	23,659,297	33,768,739	29,218,859
2040	10,564,367	24,605,669	35,170,036	30,533,708
2041	11,039,764	25,589,896	36,629,660	31,907,725
2042	11,536,553	26,613,492	38,150,045	33,343,573
2043	12,055,698	27,678,032	39,733,730	34,844,033
2044	12,598,204	-	12,598,204	36,412,015

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

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

CITY OF SOMERVILLE, ALL GROUPS

Interest:

Pay-as-You-Go: 4.00% 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
2015	7.0%
2016	6.5%
2017	6.0%
2018	5.5%
2019	5.0%
2020 & after	4.5%

Amortization Period:

30-year level percent of pay assuming 4.0% aggregate annual payroll growth, open basis for Pay-as-You-Go. 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:

95% of future retiree teachers and are assumed to participate in the retiree medical plan, 95% of future non-teacher retirees are expected to participate in the retiree medical plan and 100% of future retirees are expected to elect life insurance.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

CITY OF SOMERVILLE, ALL GROUPS

Marital Status: 60% of male employees and 50% 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 over 65 will participate in the Medicare Supplement plan in the same proportion as current retirees over 65. Per capita costs were developed from the City 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: 95% of current active teachers and 95% of current active non-teachers 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 2014-15 at age 64 and 65 are $12,722 and $3,819, respectively. Medicare eligible retirees' per capita claims costs at age 65 is $3,429.

It is assumed that future retirees participate in the same manner as current retirees. Employee cost sharing is based on current rates. The cost sharing varies by medical plan. Future cost sharing is based on the weighted average of the current cost sharing of retirees and beneficiaries.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

CITY OF SOMERVILLE, 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: 2011 IRS Static Mortality. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 2 years is used.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

CITY OF SOMERVILLE, 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: 2011 IRS Static Mortality. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 2 years is used.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

CITY OF SOMERVILLE, 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: The RP-2000 Combined Healthy Table. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 2 years is used.

SCHEDULE B - SUMMARY OF PROGRAM PROVISIONS

Retiree Medical Insurance:	Participants may select from a wide variety of plans offered by the Group Insurance Commission. Retirees contribute either 17.5% or 25% of the costs, depending on the plan elected.
Life Insurance:	The City of Somerville provides $5,000 of Basic Life Insurance. Retirees contribute $3.95 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 City pays administrative costs for each member of the plan as part of the monthly premium.
Section 18 Coverage:	The City 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.
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 City 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. The liability and normal cost attributable to the Cadillac tax have been estimated and are included 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.