

**JUNE 30, 2014  
ACTUARIAL VALUATION OF  
THE POST RETIREMENT BENEFITS PLAN  
OF  
THE TOWN OF SALISBURY**

**September 2014**

## TABLE OF CONTENTS

<u>Section</u>	<u>Item</u>	<u>Page</u>
SECTION I	OVERVIEW .....	1
SECTION II	REQUIRED INFORMATION .....	3
SECTION III	MEDICAL PREMIUMS .....	4
SECTION IV	BREAKOUTS .....	5
SECTION V	REQUIRED SUPPLEMENTARY INFORMATION.....	6
SECTION VI	NET OPEB OBLIGATION .....	7
SECTION VII	SCHEDULE OF EMPLOYER CONTRIBUTIONS .....	8
SCHEDULE A	ACTUARIAL ASSUMPTIONS AND METHODS .....	11
SCHEDULE B	SUMMARY OF PROGRAM PROVISIONS .....	15
SCHEDULE C	CONSIDERATIONS OF HEALTHCARE REFORM .....	16
SCHEDULE D	GLOSSARY OF TERMS.....	17

## SECTION I - OVERVIEW

The Town of Salisbury 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 Town of Salisbury. 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."

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

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 4.0% scenario figures should be reflected in the Town's financial statements based on the Town's current Pay-as-You-Go funding approach. If the Town 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 Sherman, ASA, MAAA, EA

---

Date

## SECTION II - REQUIRED INFORMATION

	Full Prefunding 8.0%	Pay-as-You-Go 4.00%	
	June 30, 2014	June 30, 2014	Difference
a) Actuarial valuation date	June 30, 2014	June 30, 2014	
b) Actuarial Value of Assets	\$ 61,316	\$ 61,316	\$ 0
c) Actuarial Accrued Liability			
Active participants	\$ 2,377,305	\$ 5,352,660	\$ 2,975,355
Retired participants	<u>2,367,498</u>	<u>3,589,903</u>	<u>1,222,405</u>
Total AAL	\$ 4,744,803	\$ 8,942,563	\$ 4,197,760
d) Unfunded Actuarial Liability "UAL" [ c - b ]	\$ 4,683,487	\$ 8,881,247	\$ 4,197,760
e) Funded ratio [ b / c ]	1.3%	0.7%	
f) Annual covered payroll	\$ 3,633,465	3,633,465	
g) UAL as percentage of covered payroll	128.9%	244.4%	
h) Normal Cost for fiscal year 2014	\$ 114,386	\$ 311,662	\$ 197,276
i) Amortization of UAL for fiscal year 2014*	255,965	\$ 296,042	40,077
j) Interest to the end of the fiscal year	0	0	0
k) Annual Required Contribution "ARC" for fiscal year 2014 [ h + i + j ]	\$ 370,351	\$ 607,704	\$ 237,353
l) Estimated claims payments	\$ 199,561	\$ 199,561	\$ 0
m) Participants			
Actives	71	71	
Retirees and Beneficiaries	<u>65</u>	<u>65</u>	
Total	136	136	

\* 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. The following are gross monthly rates per subscriber for plans in which current Town retirees are enrolled:

HMO Blue (individual)	\$671.50
HMO Blue (family)	\$1,745.88
Blue Care Elect (individual)	\$894.56
Blue Care Elect (family)	\$2,325.91
Medex III (individual)	\$375.00

Retirees contribute towards their coverage in the amount of 50% of stated premiums.

## SECTION IV - BREAKOUTS

**Number of Participants included in valuation**

	<u>Sewer</u>	<u>Town</u>	<u>Total</u>
Actives	4	67	71
Retired & Beneficiaries (medical &/or life)	0	65	65
Total	4	132	136

**Accrued Liability @ 8.0%**

Active	152,859	2,224,446	2,377,305
Retired	0	2,367,498	2,367,498
Total	152,859	4,591,943	4,744,802
Assets	36,186	25,130	61,316
Unfunded Liability	116,673	4,566,813	4,683,486

**Annual Required Contribution - FYE14**

Normal Cost with interest	3,630	110,756	114,386
Amortization of UAL with interest	6,376	249,589	255,965
Total	10,006	360,345	370,351

**Annual Required Contribution - FYE15**

Normal Cost with interest	3,793	115,740	119,533
Amortization of UAL with interest	6,631	259,573	266,204
Total	10,424	375,313	385,737

**Accrued Liability @ 4.0%**

Active	342,160	5,010,500	5,352,660
Retired	0	3,589,903	3,589,903
Total	342,160	8,600,403	8,942,563
Assets	36,186	25,130	61,316
Unfunded Liability	305,974	8,575,273	8,881,247

**Annual Required Contribution - FYE14**

Normal Cost with interest	10,489	301,173	311,662
Amortization of UAL with interest	10,199	285,842	296,042
Total	20,688	587,015	607,704

**Annual Required Contribution - FYE15**

Normal Cost with interest	10,961	314,726	325,687
Amortization of UAL with interest	10,733	300,811	311,545
Total	21,694	615,537	637,232

**SECTION V - REQUIRED SUPPLEMENTARY INFORMATION**

**Schedule of Funding Progress on a Pay-as-You-Go Basis - 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, 2009	0	6,958,284	6,958,284	0.00%	n/a	n/a
June 30, 2012	0	6,989,364	6,989,364	0.00%	3,628,492	192.62%
June 30, 2014	61,316	8,942,563	8,881,247	0.69%	3,633,465	244.43%



## 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
2009	429,841	n/a	n/a	429,841	204,131	225,710	225,710
2010	453,717	0	0	453,717	224,544	229,173	454,883
2011	472,158	0	0	472,158	240,223	231,935	686,818
2012	533,560	27,473	22,894	538,139	131,148	406,991	1,093,809
2013	562,737	43,752	36,460	570,029	134,066	435,963	1,529,772
2014	607,704	61,191	50,992	617,903	260,561	357,342	1,887,114
2015	637,232	75,485	62,904	649,813	224,412	425,401	2,312,515

## 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 3.0% 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

## Pay-as-You-Go Basis - 4.0%

Fiscal Year		Amortization		Estimated
<u>Ending In</u>	<u>Normal Cost</u>	<u>of UAL</u>	<u>ARC*</u>	<u>Claims Cost</u>
2014	311,662	296,042	607,704	199,561
2015	325,687	311,545	637,232	224,412
2016	340,343	327,546	667,889	242,985
2017	355,658	343,744	699,402	271,604
2018	371,663	360,061	731,724	303,506
2019	388,388	376,977	765,365	322,125
2020	405,865	394,351	800,216	346,405
2021	424,129	412,170	836,299	372,378
2022	443,215	430,813	874,028	388,561
2023	463,160	450,201	913,361	408,913
2024	484,002	470,492	954,494	426,435
2025	505,782	491,610	997,392	448,197
2026	528,542	513,820	1,042,362	464,122
2027	552,326	536,839	1,089,165	490,701
2028	577,181	560,576	1,137,757	522,032
2029	603,154	585,364	1,188,518	545,523
2030	630,296	611,250	1,241,546	570,072
2031	658,659	638,283	1,296,942	595,725
2032	688,299	666,513	1,354,812	622,532
2033	719,272	695,994	1,415,266	650,546
2034	751,639	726,782	1,478,421	679,821
2035	785,463	758,933	1,544,396	710,413
2036	820,809	792,509	1,613,318	742,381
2037	857,745	827,572	1,685,317	775,789
2038	896,344	864,190	1,760,534	810,699
2039	936,679	902,431	1,839,110	847,181
2040	978,830	942,366	1,921,196	885,304
2041	1,022,877	984,072	2,006,949	925,142
2042	1,068,906	1,027,626	2,096,532	966,774
2043	1,117,007	1,073,111	2,190,118	1,010,279
2044	1,167,272	1,120,613	2,287,885	1,055,741

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

## SECTION VII - SCHEDULE OF EMPLOYER CONTRIBUTIONS

## Full Prefunding Basis - 8%

Fiscal Year <u>Ending In</u>	<u>Normal Cost</u>	Amortization <u>of UAL</u>	<u>ARC*</u>	Estimated <u>Claims Cost</u>
2014	114,386	255,965	370,351	199,561
2015	119,533	266,204	385,737	224,412
2016	124,912	276,852	401,764	242,985
2017	130,533	287,926	418,459	271,604
2018	136,407	299,443	435,850	303,506
2019	142,545	311,421	453,966	322,125
2020	148,960	323,877	472,837	346,405
2021	155,663	336,832	492,495	372,378
2022	162,668	350,306	512,974	388,561
2023	169,988	364,318	534,306	408,913
2024	177,637	378,891	556,528	426,435
2025	185,631	394,046	579,677	448,197
2026	193,984	409,808	603,792	464,122
2027	202,713	426,201	628,914	490,701
2028	211,835	443,249	655,084	522,032
2029	221,368	460,979	682,347	545,523
2030	231,330	479,418	710,748	570,072
2031	241,740	498,594	740,334	595,725
2032	252,618	518,538	771,156	622,532
2033	263,986	539,280	803,266	650,546
2034	275,865	560,851	836,716	679,821
2035	288,279	583,285	871,564	710,413
2036	301,252	606,616	907,868	742,381
2037	314,808	630,881	945,689	775,789
2038	328,974	656,116	985,090	810,699
2039	343,778	682,361	1,026,139	847,181
2040	359,248	709,655	1,068,903	885,304
2041	375,414	738,041	1,113,455	925,142
2042	392,308	767,563	1,159,871	966,774
2043	409,962	798,266	1,208,228	1,010,279
2044	428,410	-	428,410	1,055,741

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

## SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

### TOWN OF SALISBURY, 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:***

<u>Year</u>	<u>Inflation Rate</u>
2015	6.5%
2016	6.0%
2017	5.5%
2018	5.0%
2019 & after	4.5%

***Amortization Period:*** 30-year level percent of pay assuming 4.0% aggregate annual payroll growth, open basis for 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 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****TOWN OF SALISBURY, 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. 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 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 Town employees and retirees are a small part of the MIIA, and thus community rated. The estimated gross per capita incurred claim costs for all retirees and beneficiaries for 2013-14 at age 64 and 65 are \$8,058 and \$4,500, respectively.
- 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 SALISBURY, GROUPS 1 AND 2

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		Years of Service	Rates of Withdrawal
		Male	Female		
25	0.0002			0	0.150
30	0.0003			1	0.120
35	0.0006			2	0.100
40	0.0010			3	0.090
45	0.0015			4	0.080
50	0.0019	0.010	0.015	5	0.076
55	0.0024	0.020	0.055	10	0.054
60	0.0028	0.120	0.050	15	0.033
62	0.0030	0.300	0.150	20	0.020
65	0.0030	0.400	0.150	25	0.010
69		0.300	0.200	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**

**TOWN OF SALISBURY, GROUP 4**

SEPARATIONS FROM ACTIVE SERVICE: Representative values of the assumed annual rates of disability, service retirement, and withdrawal are as follows:

<b>Age</b>	<b>Disability</b>	<b>Service Retirements</b>	<b>Years of Service</b>	<b>Rates of Withdrawal</b>
25	0.0020		0	0.015
30	0.0030		1	0.015
35	0.0030		2	0.015
40	0.0030		3	0.015
45	0.0100	0.010	4	0.015
50	0.0125	0.020	5	0.015
55	0.0120	0.015	6	0.015
60	0.0085	0.020	7	0.015
62	0.0075	0.025	8	0.015
65	0.0000	1.000	9	0.015
69			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**

***Retirement Medical Insurance:*** Retirees contribute towards their coverage in the amount of 50% of stated premiums.

***Life Insurance:*** The Town of Salisbury contributes 50% of the cost of \$5,000 basic life insurance.

***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.

***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 an ongoing offsetting item in GASB 45 valuations, and so no direct impact is reflected. RDS actuarial equivalence testing does not reflect the new donut hole shrinking Part D benefits. Thus, the changes to Medicare Part D have no impact on the calculations.

**Excise Tax on High-Cost Employer Health Plans (aka Cadillac Tax) - Effective January 1, 2018:** There is considerable uncertainty about how the tax would be applied, and considerable latitude in grouping of participants for tax purposes. We have estimated the impact and included it in the liabilities.

**Other:** We have not identified any other specific provision of health care reform that would be expected to have a significant impact on the measured obligation. As additional guidance on the legislation is issued, we will continue to monitor any potential impacts.

## SCHEDULE D - GLOSSARY OF TERMS

### **Actuarial Accrued Liability**

That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of OPEB benefits and expenses which is not provided for by future Normal Costs and therefore is the value of benefits already earned.

### **Actuarial assumptions**

Assumptions as to the occurrence of future events affecting OPEB costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and Government provided OPEB benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; characteristics of future entrants for Open Group Actuarial Cost Methods; and other relevant items.

### **Actuarial cost method**

A procedure for determining the Actuarial Present Value of OPEB benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.

### **Actuarial experience gain or loss**

A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates, as determined in accordance with a particular Actuarial Cost Method.

### **Amortization (of unfunded actuarial accrued liability)**

That portion of the OPEB plan contribution which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability or the Unfunded Frozen Actuarial Accrued Liability.

### **Annual OPEB cost**

An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.

### **Annual required contributions of the employer (ARC)**

The employer's periodic expense to a defined benefit OPEB plan, calculated in accordance with the parameters. It is the value of the cash contributions for a funded plan and the value of the expense entry in the profit and loss section of the financial statements.

### **Closed amortization period (closed basis)**

A specific number of years that is counted from one date and, therefore, declines to zero with the passage of time. For example, if the amortization period initially is thirty years on a closed basis, twenty-nine years remain after the first year, twenty-eight years after the second year, and so forth. In contrast, an open amortization period (open basis) is one that begins again or is recalculated at each actuarial valuation date. Within a maximum number of years specified by law or policy (for example, thirty years), the period may increase, decrease, or remain stable.

### **Covered payroll**

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

### **Defined benefit OPEB plan**

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

### **Funded ratio**

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

## SCHEDULE D - GLOSSARY OF TERMS

### **Funding policy**

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

### **Healthcare cost trend rate**

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

### **Investment return assumption (discount rate)**

The rate used to adjust a series of future payments to reflect the time value of money.

### **Level dollar amortization method**

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

### **Level percentage of projected payroll amortization method**

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

### **Net OPEB Obligation**

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

### **Normal cost**

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

### **OPEB-related debt**

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

### **Other postemployment benefits**

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

### **Pay-as-You-Go**

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

### **Required supplementary information (RSI)**

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