Chariho School District

GASB 45 Actuarial Valuation
Fiscal Year Ending June 30, 2014

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nyhart

October 1, 2014

Brian Stanley
Chariho School District
455A Switch Road
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This report summarizes the GASB actuarial valuation for the Chariho School District 2013/14 fiscal year. To the best of our knowledge, the report presents a fair position of the funded status of the plan in accordance with GASB Statement No. 45 (Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions). The valuation is also based upon our understanding of the plan provisions as summarized within the report.

The information presented herein is based on the information furnished to us by the Plan Sponsor that has been reconciled and reviewed for reasonableness. We are not aware of any material inadequacy in employee census provided by the Plan Sponsor. We have not audited the information at the source, and therefore do not accept responsibility for the accuracy or the completeness of the data on which the information is based.

The actuarial assumptions were selected by the Plan Sponsor with the concurrence of Nyhart. In our opinion, the actuarial assumptions are individually reasonable and in combination represent our estimate of anticipated experience of the Plan. All computations have been made in accordance with generally accepted actuarial principles and practice.

To our knowledge, there have been no significant events prior to the current year's measurement date or as of the date of this report that could materially affect the results contained herein.

Neither Nyhart nor any of its employees has any relationship with the plan or its sponsor that could impair or appear to impair the objectivity of this report. Our professional work is in full compliance with the American Academy of Actuaries "Code of Professional Conduct" Precept 7 regarding conflict of interest. The undersigned meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Should you have any questions please do not hesitate to contact us.

Randy Gomez

Randy Gomez, FSA, MAAA
Consulting Actuary

Evi Laksana, ASA, MAAA
Valuation Actuary

There was one change to the substantive plan provisions since the last GASB valuation, which was for the fiscal year ending June 30, 2012.

Stipend benefit for Teachers who are still actively employed is eliminated effective on July 1, 2014.

- In prior valuations, the School District offers a stipend benefit to Certified Staff (Teachers and Administrators). To be eligible for this stipend, eligible employees must elect the benefit with subsidy within the first three years of becoming eligible for the benefits. Stipend benefits are payable until age 65.
- In current valuation, the stipend benefit has been discontinued for Teachers. Administrators are still eligible for the stipend benefit and the annual stipend amounts for those retiring on/after September 1, 2002 are $850 for single coverage and $2,000 for family coverage.
- Any existing retirees currently receiving the stipend benefit will continue to receive this benefit until they turn 65.

Adjustment for the above substantive plan provision change was first reflected in the interim GASB valuation for the fiscal year ending June 30, 2013.

Due to the above benefit change, we have reduced the percentage of active Teachers assumed to elect retiree health benefits from 100% to 75% in this year's valuation.

Summary of Results

Presented below is the summary of GASB 45 results for the fiscal year ending June 30, 2014 compared to the prior fiscal years as shown in the School District's Notes to Financial Statement.

		As of July 1, 2012		*As of July 1, 2013*
Actuarial Accrued Liability	$	1,316,125	$	1,235,086
Actuarial Value of Assets	$	0	$	0
Unfunded Actuarial Accrued Liability	$	1,316,125	$	1,235,086
Funded Ratio		0.0%		0.0%

		FY 2012/13		*FY 2013/14*
Annual Required Contribution	$	160,861	$	134,368
Annual OPEB Cost	$	152,634	$	126,553
Annual Employer Contribution	$	160,861	$	121,356

		As of June 30, 2013		*As of June 30, 2014*
Net OPEB Obligation	$	156,484	$	161,681

	As of July 1, 2014
Total Active Participants	501
Total Retiree Participants	54

The active participants' number above may include active employees who currently have no health care coverage. Refer to Summary of Participants section for an accurate breakdown of active employees with and without coverage.

Below is a breakdown of total GASB 45 liabilities allocated to past, current, and future service as of July 1, 2013 compared to the prior year.

		As of July 1, 2012		*As of July 1, 2013*
Present Value of Future Benefits	**$**	**1,616,112**	**$**	**1,441,439**
Active Employees		1,080,777		882,783
Retired Employees		535,335		558,656
Actuarial Accrued Liability	**$**	**1,316,125**	**$**	**1,235,086**
Active Employees		780,790		676,430
Retired Employees		535,335		558,656
Normal Cost	**$**	**30,859**	**$**	**22,388**
Future Normal Cost	**$**	**269,128**	**$**	**183,965**

Present Value of Future Benefits (PVFB) is the amount needed as of July 1, 2012 and 2013 to fully fund the School District's retiree health care subsidies for existing and future retirees and their dependents assuming all actuarial assumptions are met.

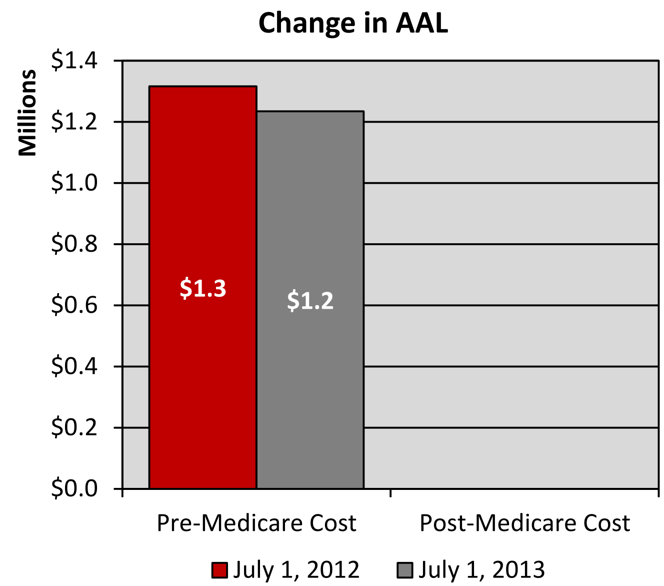
Actuarial Accrued Liability is the portion of PVFB considered to be accrued or earned as of July 1, 2012 and 2013. This amount is a required disclosure in the Required Supplementary Information section.

Normal Cost is the portion of the total liability amount that is attributed and accrued for current year's active employee service by the actuarial cost method.

Future Normal Cost is the portion of the total liability amount that is attributed to the future employee by the actuarial cost method.

Below is a breakdown of total GASB 45 Actuarial Accrued Liability (AAL) allocated to pre and post Medicare eligibility. The liability shown below includes explicit (if any) and implicit subsidies. Refer to the Substantive Plan Provisions section for complete information on the Plan Sponsor's GASB subsidies.

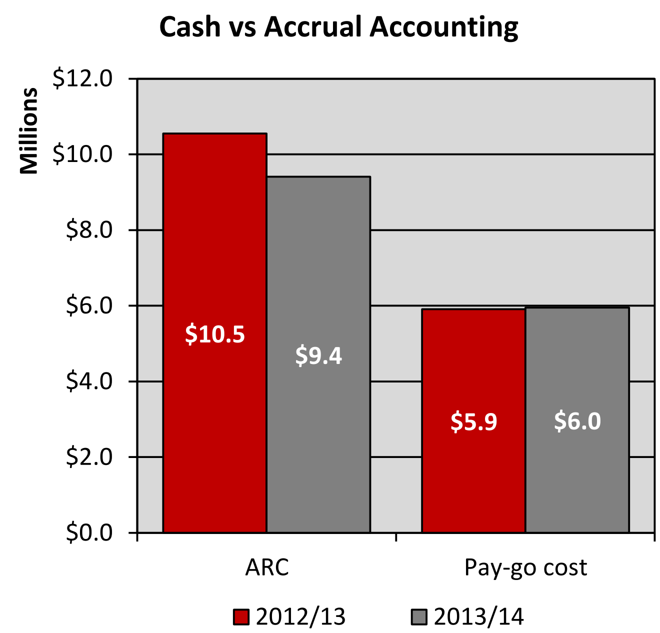
Actuarial Accrued Liability (AAL)		*As of July 1, 2012*		*As of July 1, 2013*
Active Pre-Medicare	$	780,790	$	676,430
Active Post-Medicare		0		0
Total Active AAL	$	780,790	$	676,430
Retirees Pre-Medicare	$	535,335	$	558,656
Retirees Post-Medicare		0		0
Total Retirees AAL	$	535,335	$	558,656
Total AAL	**$**	**1,316,126**	**$**	**1,235,086**



Development of Annual Required Contribution (ARC)

Required Supplementary Information		FY 2012/13		FY 2013/14
Actuarial Accrued Liability as of beginning of year	$	1,316,125	$	1,235,086
Actuarial Value of Assets as of beginning of year		0		0
Unfunded Actuarial Accrued Liability (UAAL)	**$**	**1,316,125**	**$**	**1,235,086**
Covered payroll[1]	$	30,417,236	$	30,830,000
UAAL as a % of covered payroll		4.3%		4.0%

Annual Required Contribution		FY 2012/13		FY 2013/14
Normal cost as of beginning of year	$	30,859	$	22,388
Amortization of the UAAL		113,821		106,812
Total normal cost and amortization payment	$	144,680	$	129,200
Interest to end of year		5,787		5,168
Total Annual Required Contribution (ARC)	$	150,467	$	134,368
Final ARC[2]	**$**	**160,861**	**$**	**134,368**



Annual Required Contribution (ARC) is the annual expense recorded in the income statement under GASB 45 accrual accounting. It replaces the cash basis method of accounting recognition with an accrual method. The GASB 45 ARC is higher than the pay-as-you-go cost because it includes recognition of employer costs expected to be paid in future accounting periods.

[1] 2012/13 covered payroll is based on 2011/12 covered payroll ($29,531,297) increased by the payroll growth assumption (3.0%).
[2] Since the Annual Required Contribution (ARC) is less than the expected pay-go cost for 2012/13, a minimum ARC equal to the expected pay-go cost has been imposed.

Development of Annual OPEB Cost and Net OPEB Obligation

Annual employer contribution for pay-go costs are estimated for 2012/13 and 2013/14.

Net OPEB Obligation		FY 2012/13		FY 2013/14
ARC as of end of year	$	160,861	$	134,368
Interest on Net OPEB Obligation (NOO) to end of year		6,588		6,259
NOO amortization adjustment to the ARC		(14,815)		(14,074)
Annual OPEB cost	$	152,634	$	126,553
Annual employer contribution for pay-go cost		(160,861)		(121,356)
Annual employer contribution for pre-funding		0		0
Change in NOO	$	(8,227)	$	5,197
NOO as of beginning of year		164,711		156,484
NOO as of end of year	**$**	**156,484**	**$**	**161,681**

Pay-as-you-go Cost is the expected total employer cash cost for the coming period based on all explicit and implicit subsidies. It is also the amount recognized as expense on the Income Statement under pay-as-you-go accounting.

Net OPEB Obligation is the cumulative difference between the annual OPEB cost and employer contributions. This obligation will be created if cash contributions are less than the current year expense under GASB 45 accrual rules.

The net obligation is recorded as a liability on the employer's balance sheet which will reduce the net fund balance.

The value of implicit subsidies is considered as part of cash contributions for the current period. Other cash expenditures that meet certain conditions are also considered as contributions for GASB 45 purposes.

Summary of GASB 45 Financial Results

Presented below is the summary of GASB 45 results for the fiscal year ending June 30, 2014 and prior fiscal years as shown in the School District's Notes to Financial Statements.

Schedule of Funding Progress

As of	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets (AVA)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
	A	B	C = A - B	D = B / A	E	F = C / E
July 1, 2013	$ 1,235,086	$ -	$ 1,235,086	0.0%	$ 30,830,000	4.0%
July 1, 2012	$ 1,316,125	$ -	$ 1,316,125	0.0%	$ 30,417,236	4.3%
July 1, 2011	$ 1,472,182	$ -	$ 1,472,182	0.0%	$ 29,531,297	5.0%

Schedule of Employer Contributions

FYE	Employer Contributions	Annual Required Contribution (ARC)	% of ARC Contributed
	A	B	C = A / B
June 30, 2014	$ 121,356	$ 134,368	90.3%
June 30, 2013	$ 160,861	$ 160,861	100.0%
June 30, 2012	$ 146,388	$ 166,093	88.1%

Historical Annual OPEB Cost

As of	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	$ 126,553	95.9%	$ 161,681
June 30, 2013	$ 152,634	105.4%	$ 156,484
June 30, 2012	$ 158,470	92.4%	$ 164,711

The Actuarial Accrued Liability (AAL) is expected to change on an annual basis as a result of expected and unexpected events. Under normal circumstances, it is generally expected to have a net increase each year. Below is a list of the most common events affecting the AAL and whether they increase or decrease the liability.

Expected Events

- Increases in AAL due to additional benefit accruals as employees continue to earn service each year
- Increases in AAL due to interest as the employees and retirees age
- Decreases in AAL due to benefit payments

Unexpected Events

- Increases in AAL when actual premium rates increase more than expected. A liability decrease occurs when premium rates increase less than expected.
- Increases in AAL when more new retirements occur than expected or fewer terminations occur than anticipated. Liability decreases occur when the opposite outcomes happen.
- Increases or decreases in AAL depending on whether benefit provisions are improved or reduced.

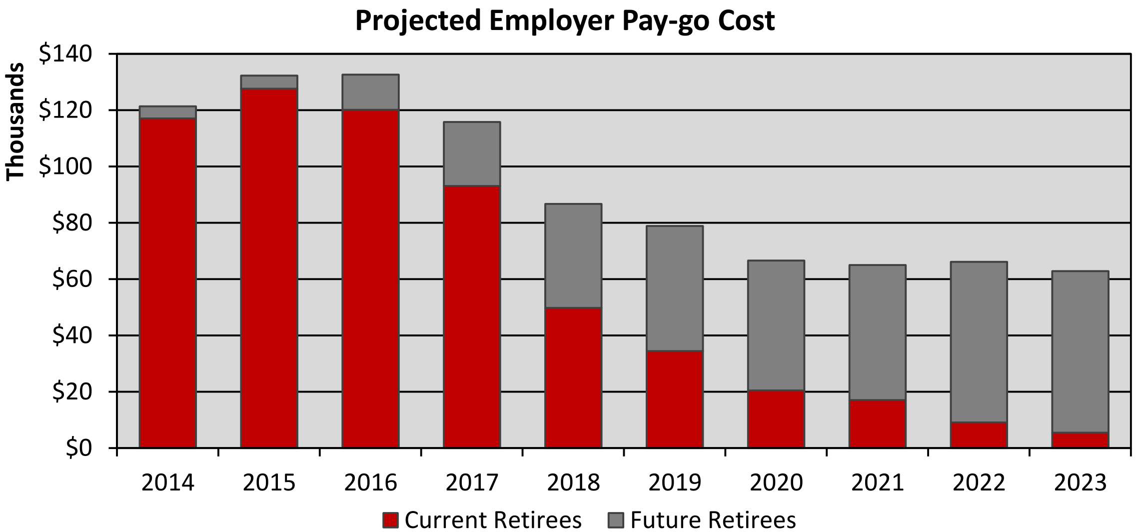
		FY 2013/14[3]
Actuarial Accrued Liability as of beginning of year	$	1,235,086
Normal cost as of beginning of year		22,388
Expected benefit payments during the year		(121,356)
Interest adjustment to end of year		47,896
Expected Actuarial Accrued Liability as of end of year	$	1,184,014
Actuarial (gain) / loss due to experience		0
Actuarial (gain) / loss due to provisions / assumptions changes		0
Actual Actuarial Accrued Liability as of end of year	$	1,184,014

Reconciliation of AAL shows what the actuary expects the actuarial accrued liability to be at the beginning of the following fiscal year based on current assumptions and plan provisions. The expected end of year AAL will change as actual plan experience varies from assumptions. Generally, the AAL is expected to have a net increase each year.

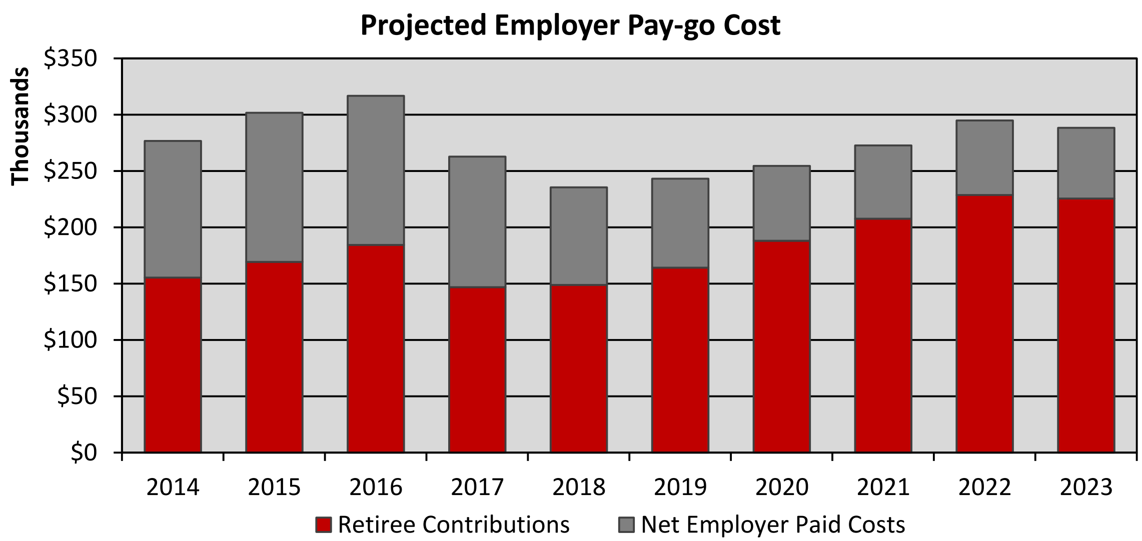
[3] Actuarial Accrued Liability (AAL) as of beginning of year was actuarially rolled-back from end of year AAL on a “no gain/loss” basis.

The below projections show the actuarially estimated employer-paid contributions for retiree health benefits for the next ten years. Results are shown separately for current /future retirees and gross claim costs/retiree contributions. These projections include explicit and implicit subsidies.

FYE	Current Retirees	Future Retirees[4]	Total
2014	$ 117,083	$ 4,273	$ 121,356
2015	$ 127,620	$ 4,658	$ 132,278
2016	$ 120,107	$ 12,445	$ 132,552
2017	$ 93,066	$ 22,726	$ 115,792
2018	$ 49,787	$ 36,851	$ 86,638
2019	$ 34,444	$ 44,419	$ 78,863
2020	$ 20,409	$ 46,207	$ 66,616
2021	$ 16,990	$ 48,002	$ 64,992
2022	$ 9,099	$ 57,001	$ 66,100
2023	$ 5,389	$ 57,440	$ 62,829



FYE	Estimated Claims Costs	Retiree Contributions	Net Employer-Paid Costs
2014	$ 276,643	$ 155,287	$ 121,356
2015	$ 301,541	$ 169,263	$ 132,278
2016	$ 316,844	$ 184,292	$ 132,552
2017	$ 262,633	$ 146,841	$ 115,792
2018	$ 235,384	$ 148,746	$ 86,638
2019	$ 243,142	$ 164,279	$ 78,863
2020	$ 254,621	$ 188,005	$ 66,616
2021	$ 272,693	$ 207,701	$ 64,992
2022	$ 294,826	$ 228,726	$ 66,100
2023	$ 288,386	$ 225,557	$ 62,829



[4] Projections for future retirees do not take into account future new hires.

Eligibility

Certified teachers and support staff are eligible for retiree health benefits until Medicare eligibility once they meet the retirement eligibility requirements under Rhode Island State Employees Retirement System (RI ERS) or Rhode Island Municipal Employees Retirement System (RI MERS).

RI ERS Eligibility Requirements

RI ERS eligibility requirements is the earlier of each employee's (a) Article 7 or (b) RIRSA eligibility dates which vary by Schedules summarized below:

Schedules	Vested with 10 years of contributing service credit as of 7/1/2005	Eligible to retire as of 9/30/2009
A	Y	Y*
B	N	Y**
AB	Y	N
B1	N	N
B2	Employees that became a member of RI ERS after 9/30/2009	

* Schedule A members were eligible to retire as of 9/30/2009 if they had (i) 28 years of service as of 9/30/2009 or (ii) had 10 years of contributing service and were age 60 as of 9/30/2009.
** Schedule B members were eligible to retire as of 9/30/2009 if they had 10 years of contributing service and were age 65 as of 9/30/2009.

<u>Article 7 Eligibility Date</u>
There are no changes to Schedule A and Schedule B members retirement eligibility dates. These employees may retire at any time once they met the prior RI ERS eligibility rules. The prior RI ERS eligibility rules are:

- Schedule A – earlier of (i) 28 years of service or (ii) age 60 with 10 years of contributing service.
- Schedule B – earlier of (i) age 65 with 10 years of contributing service or (ii) age 59 with 29 years of contributing service.

Minimum retirement age under Article 7 for Schedule AB and B1 members is 62 with "proportional downward adjustment" toward an earlier retirement age based on years of service as of 9/30/2009 (referred to as "frozen service credit").

Schedule B2 members minimum retirement age under Article 7 is age 62 <u>without</u> "proportional downward adjustment" toward an earlier retirement age.

RI ERS Eligibility Requirements
(Continued)

RIRSA Eligibility Date
Employees with less than five years of contributing service credit on 6/30/2012 may retire at the Social Security normal retirement age (not higher than 67).

For employees with at least five years of contributing service credit on 6/30/2012, minimum retirement age is 62 with "proportional downward adjustment" toward an earlier retirement date based on years of service prior to 7/1/2012, but not earlier than 59.

Employees with at least 10 years of contributing service credit on 6/30/2012 may retire at their Article 7 eligibility date if they continue to work and contribute until that date. If they are within five years of reaching RIRSA retirement eligibility date and have at least 20 years of service, they may retire at any time.

MERS Eligibility Requirements

Employees eligible to retire as of 7/1/2012 are not impacted by the new eligibility requirements described below. Prior to 7/1/2012, employees were eligible to retire at the earlier of: (i) age 58 with 10 years of service credit or (ii) 30 years of service (no age requirement).

For employees who are not eligible to retire as of 7/1/2012:

a) Members with less than five years of contributing service credit on 6/30/2012 may retire at their Social Security normal retirement age.
b) Members with at least five years of contributing service credit on 6/30/2012 may retire at an individually determined age, which is the result of interpolating the member's prior Retirement Date (described in previous paragraph) and the retirement age applicable to members hired after 6/30/2012 (described in item (a) above).
c) Members with at least ten years of contributing service credit on 6/30/2012 may retire at their prior Retirement Date (described in previous paragraph) if they continue to work and contribute until that date.

All members who are within five years of reaching their retirement eligibility date (described in the paragraphs above) may retire at any time if they have at least 20 years of service.

Spouse Benefit

Surviving spouses of certified teachers (including Administrators) are able to stay on the plan at their own expense for the same duration as retirees. There is no spousal coverage available for support staff retirees.

Retiree Cost Sharing

Retirees pay the full cost of coverage except for Administrators who are eligible for stipend benefit described in the Explicit Subsidy section below.

Explicit Subsidy

The School District offers an annual stipend to Administrators. To retain the subsidy, Administrators must elect the benefit with subsidy within the first 3 years of becoming eligible for the benefit. Benefits are payable until age 65.

Certified Staff	Single	Family
Retire Prior to 9/1/2002	$ 700	$ 1,700
Retire After 9/1/2002	$ 850	$ 2,000

Any existing retirees currently receiving the stipend benefit will continue to receive this benefit until they turn 65.

Medical Benefit

Same benefit options are available to retirees as active employees. Chariho School District is a member of the WB Community Health ("Community"). Each participating plan sponsor is treated as a self-insured health plan (i.e. their assets are not pooled together).

The monthly premiums effective July 1, 2014 are as shown below.

	Single	Family
Classic	$ 560.36	$ 1,402.63
Healthmate	$ 532.14	$ 1,331.79

The actuarial assumptions used in this report represent a reasonable long-term expectation of future OPEB outcomes. As national economic and School District experience change over time, the assumptions will be tested for ongoing reasonableness and, if necessary, updated.

There are no major changes to the actuarial methods and assumptions since the last GASB valuation, which was for the fiscal year ending June 30, 2012. For the current year GASB valuation, we have updated the per capita costs. We expect to update health care trend rates and per capita costs again in the next full GASB valuation, which will be for the fiscal year ending June 30, 2016

Measurement Date

June 30, 2014 with results actuarially rolled-back to July 1, 2013 on a "no loss/no gain" basis.

Discount Rate

4.0%

Payroll Growth

N/A

Inflation Rate

3.0% per year

Cost Method

Entry Age Normal Level Dollar

Amortization

Level dollar over an open 15 year period

Census Data

Census information was provided by the School District as of July 2014. We have reviewed it for reasonableness and no material modifications were made to the census data.

Mortality

RP-2000 Combined Mortality Table fully generational using Scale AA

Turnover Rate

Assumption used to project terminations (voluntary and involuntary) prior to meeting minimum retirement eligibility for retiree health coverage. Annual rates are based on Table T-2 of the Pension Actuary's Handbook, increased by 350% for the first three years of employment and by 175% for all years thereafter. Sample rates are as shown below:

Age	0 – 2 YOS	3+ YOS
25	18.5%	9.3%
30	17.7%	8.9%
35	16.4%	8.2%
40	12.3%	6.1%
45	6.2%	3.1%

Disability None

Retirement Rate Annual rates of retirement are as shown below:

Age	Rates
50 – 52	5%
53	12%
54 – 55	5%
56	12%
57	15%
58 – 59	5%
60	10%
61	5%
62	12%
63 – 64	5%
65	100%

Health Care Coverage Election Rate
Administrators with current coverage: 100%
Certified active employees with current coverage: 75%
Support staff with current coverage: 20%

Active employees with no coverage: 0%

Inactive employees with current coverage: 100%
Inactive employees with no coverage: 0%

Spousal Coverage Spousal coverage for current retirees is based on actual data.

70% of employees are assumed to be married at retirement. Spousal coverage for current retirees is based on actual data. Husbands are assumed to be three years older than wives.

Employer Funding Policy Pay-as-you-go cash basis

Health Care Trend Rates

FYE	Medical	FYE	Medical
2015	9.0%	2020	6.5%
2016	8.5%	2021	6.0%
2017	8.0%	2022	5.5%
2018	7.5%	2023+	5.0%
2019	7.0%		

The initial trend rate was based on a combination of employer history, national trend surveys, and professional judgment.

The ultimate trend rate was selected based on historical medical CPI information.

Retiree Contributions

Retiree contributions are assumed to increase according to health care trend rates.

Per Capita Costs

Annual per capita costs were calculated based on the premium rates effective on July 1, 2014 actuarially increased using aging factors and current enrollment. Sample annual per capita costs at select ages are as shown below:

Age	All Plans
<50	$ 6,400
50 – 54	$ 6,900
55 – 59	$ 8,400
60 – 64	$ 10,400

The per capita costs represent the cost of coverage for a retiree-only population.

Actuarial standards require the recognition of higher inherent costs for a retired population versus an active population.

Explicit Subsidy

The difference between (a) the premium rate and (b) the retiree contribution. Below is an example of the monthly explicit subsidies for a retired Administrators age 60 enrolled in the Healthmate plan and currently receiving a $2,000 family coverage stipend. It has been assumed the stipend will be applied to the retiree premium.

	Premium Rate	Retiree Contribution	Explicit Subsidy
	A	B	C = A – B
Retiree	$ 532.14	$ 365.47	$ 166.67
Spouse	$ 799.65	$ 799.65	$ 0.00

Implicit Subsidy

The difference between (a) the per capita cost and (b) the premium rate. Below is an example of the monthly implicit subsidies for a 60 – 64 retiree with spouse of the same age enrolled in the Healthmate plan.

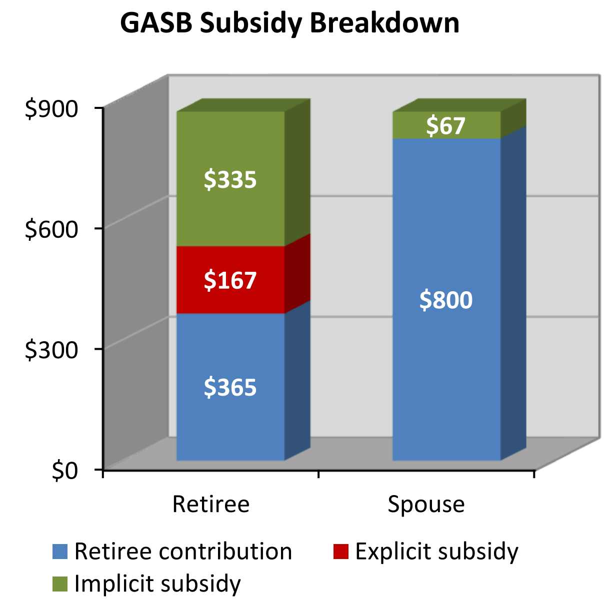
	Per Capita Cost	Premium Rate	Implicit Subsidy
	A	B	C = A – B
Retiree	$ 866.67	$ 532.14	$ 334.53
Spouse	$ 866.67	$ 799.65	$ 67.02

All employers that utilize premium rates based on blended active/retiree claims experience will have an implicit subsidy. There is an exception for plans using a true community-rated premium rate.

GASB Subsidy Breakdown

Below is a breakdown of the GASB 45 monthly total cost for a retired Administrator age 60 receiving a $2,000 stipend and his spouse of the same age enrolled in the Healthmate plan.

	Retiree		Spouse	
Retiree contribution	$	365.47	$	799.65
Explicit subsidy	$	166.67	$	0.00
Implicit subsidy	$	334.53	$	67.02
Total monthly cost	$	866.67	$	866.67



Actives with coverage	Single	Family	Total	Avg. Age	Avg. Svc	Salary
Healthmate	81	308	389	47.3	13.6	$ 24,263,185
Classic		3	3	58.0	27.2	$ 72,068
Total actives with coverage	**81**	**311**	**392**	**47.3**	**13.7**	**$ 24,335,253**

Actives without coverage	Single	Family	Total	Avg. Age	Avg. Svc	Salary
Total actives with coverage	**N/A**	**N/A**	**109**	**45.3**	**9.2**	**$ 6,494,747**

Active employees without coverage are assumed not to elect coverage at retirement. They have been excluded from this GASB valuation.

Retirees with coverage	Single	Family	Total	Avg. Age
Healthmate	16	7	23	61.1
Classic	1		1	59.6
Total retirees with coverage	**17**	**7**	**24**	**61.1**

Retirees receiving Stipend Only	Single	Family	Total	Avg. Age
Stipend Only	**N/A**	**N/A**	**30**	**60.9**

Active Age-Service Distribution

	Years of Service										
Age	***< 1***	***1 to 4***	***5 to 9***	***10 to 14***	***15 to 19***	***20 to 24***	***25 to 29***	***30 to 34***	***35 to 39***	***40 & up***	***Total***
Under 25	2	5									**7**
25 to 29	10	17	4								**31**
30 to 34	4	13	22	4							**43**
35 to 39	1	7	13	20	4						**45**
40 to 44	2	9	15	32	18	4	2				**82**
45 to 49	3	9	13	23	8	17	3				**76**
50 to 54	2	4	11	33	13	15	12	1			**91**
55 to 59	2	7	7	24	14	19	5	1			**79**
60 to 64	1		5	11	9	5	5	1			**37**
65 to 69			1	4	1		2	2			**10**
70 & up											**0**
Total	**27**	**71**	**91**	**151**	**67**	**60**	**29**	**5**	**0**	**0**	**501**

APPENDIX

Comparison of Participant Demographic Information

The active participants' number below may include active employees who currently have no health care coverage. Refer to Summary of Participants section for an accurate breakdown of active employees with and without coverage.

	As of July 1, 2012	*As of July 1, 2014*
Active Participants	507	501
Retired Participants	121	54
Averages for Active		
Age	46.1	46.9
Service	11.8	12.7
Averages for Inactive		
Age	63.1	61.0

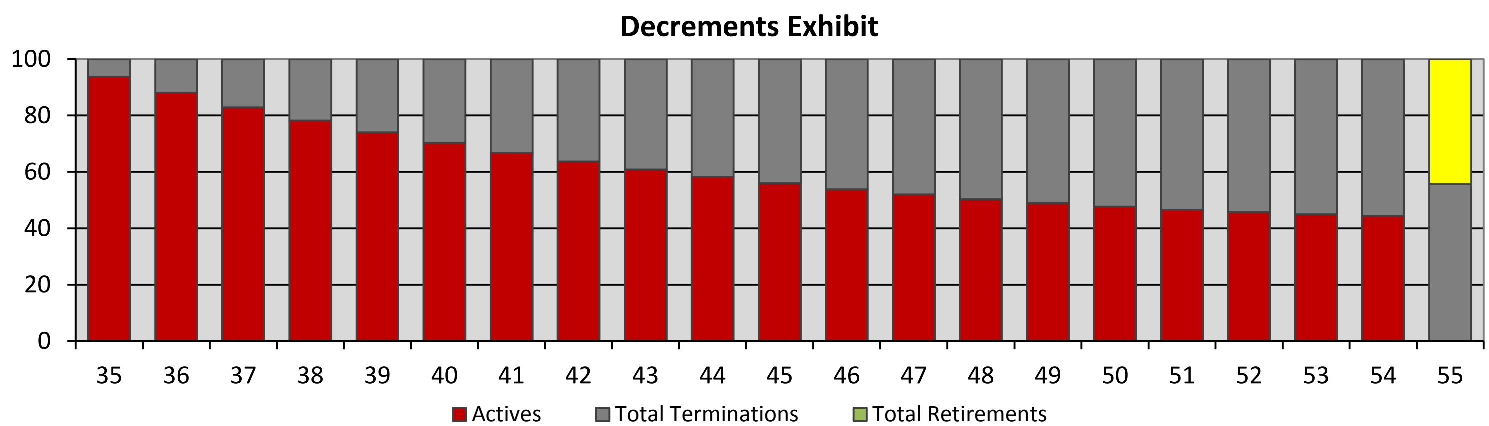
Glossary

Decrements Exhibit

The table below illustrates how actuarial assumptions can affect a long-term projection of future liabilities. Starting with 100 employees at age 35, the illustrated actuarial assumptions show that 44.430 employees out of the original 100 are expected to retire and could elect retiree health benefits at age 55.

Age	# Remaining Employees	# of Terminations per Year*	# of Retirements per Year*	Total Decrements
35	100.000	6.276	0.000	6.276
36	93.724	5.677	0.000	5.677
37	88.047	5.136	0.000	5.136
38	82.911	4.648	0.000	4.648
39	78.262	4.209	0.000	4.209
40	74.053	3.814	0.000	3.814
41	70.239	3.456	0.000	3.456
42	66.783	3.131	0.000	3.131
43	63.652	2.835	0.000	2.835
44	60.817	2.564	0.000	2.564
45	58.253	2.316	0.000	2.316

Age	# Remaining Employees	# of Terminations per Year*	# of Retirements per Year*	Total Decrements
46	55.938	2.085	0.000	2.085
47	53.853	1.866	0.000	1.866
48	51.987	1.656	0.000	1.656
49	50.331	1.452	0.000	1.452
50	48.880	1.253	0.000	1.253
51	47.627	1.060	0.000	1.060
52	46.567	0.877	0.000	0.877
53	45.690	0.707	0.000	0.707
54	44.983	0.553	0.000	0.553
55	44.430	0.000	44.430	44.430

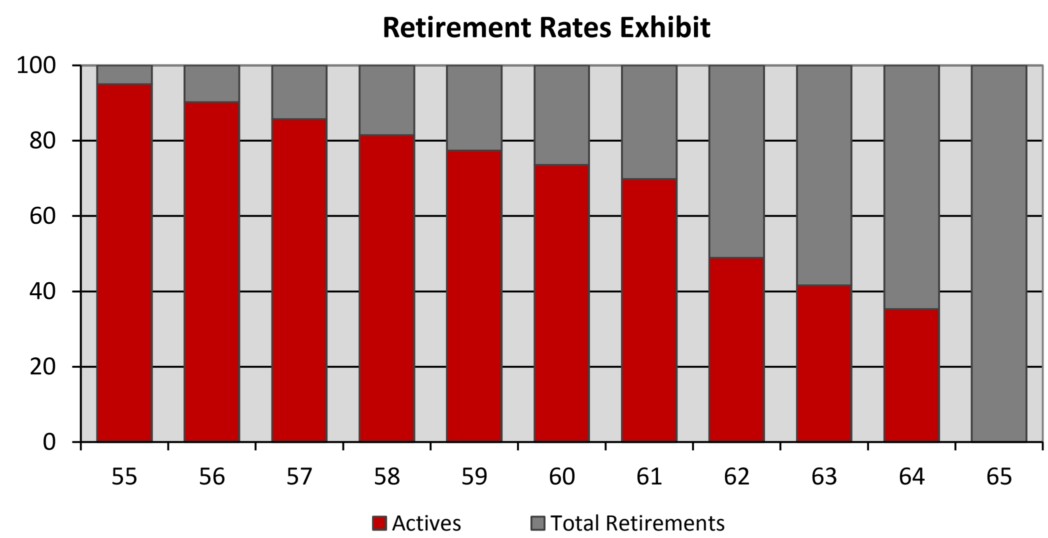


* The above rates are illustrative rates and are not used in our GASB calculations.

Retirement Rates Exhibit

The table below illustrates how actuarial assumptions can affect a long-term projection of future liabilities. The illustrated retirement rates show the number of employees who are assumed to retire annually based on 100 employees age 55 who are eligible for retiree health care coverage. The average age at retirement is 62.0.

Age	Active Employees BOY	Annual Retirement Rates*	# Retirements per Year	Active Employees EOY
55	100.000	5.0%	5.000	95.000
56	95.000	5.0%	4.750	90.250
57	90.250	5.0%	4.513	85.738
58	85.738	5.0%	4.287	81.451
59	81.451	5.0%	4.073	77.378
60	77.378	5.0%	3.869	73.509
61	73.509	5.0%	3.675	69.834
62	69.834	30.0%	20.950	48.884
63	48.884	15.0%	7.333	41.551
64	41.551	15.0%	6.233	35.318
65	35.318	100.0%	35.318	0.000



* The above rates are illustrative rates and are not used in our GASB calculations.

Illustration of GASB Calculations

The purpose of the illustration is to familiarize non-actuaries with the GASB 45 actuarial calculation process.

I. Facts

1. The employer provides subsidized retiree health coverage worth $100,000 to employees retiring at age 55 with 25 years of service. The employer funds for retiree health coverage on a pay-as-you-go basis.

2. Employee X is age 50 and has worked 20 years with the employer.

3. Retiree health subsidies are paid from the general fund assets which are expected to earn 4.5% per year on a long-term basis.

4. Based on Employee X's age and sex he has a 98.0% probability of living to age 55 and a 95.0% probability of continuing to work to age 55.

II. Calculation of Present Value of Future Benefits

Present Value of Future Benefits represents the cost to finance benefits payable in the future to current and future retirees and beneficiaries, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment.

	Value	Description
A.	$100,000	Projected benefit at retirement
B.	80.2%	Interest discount for five years = $(1 / 1.045)^5$
C.	98.0%	Probability of living to retirement age
D.	95.0%	Probability of continuing to work to retirement age
E.	$74,666	Present value of projected retirement benefit measured at employee's current age = A x B x C x D

Illustration of GASB Calculations (continued)

III. Calculation of Actuarial Accrued Liability

Actuarial Accrued Liability represents the portion of the Present Value of Future Benefits which has been accrued recognizing the employee's past service with the employer. The Actuarial Accrued Liability is a required disclosure in the Required Supplementary Information section of the employer's financial statement.

	Value	Description
A.	$74,666	Present value of projected retirement benefit measured at employee's current age
B.	20	Current years of service with employer
C.	25	Projected years of service with employer at retirement
D.	$59,733	Actuarial accrued liability measured at employee's current age = A x B / C

IV. Calculation of Normal Cost

Normal Cost represents the portion of the Present Value of Future Benefits allocated to the current year.

	Value	Description
A.	$74,666	Present value of projected retirement benefit measured at employee's current age
B.	25	Projected years of service with employer at retirement
C.	$2,987	Normal cost measured at employee's current age = A / B

V. Calculation of Annual Required Contribution

Annual Required Contribution is the total expense for the current year to be shown in the employer's income statement.

	Value	Description
A.	$2,987	Normal Cost for the current year
B.	$3,509	30-year amortization (level dollar method) of Unfunded Actuarial Accrued Liability using a 4.5% interest rate discount factor
C.	$292	Interest adjustment = 4.5% x (A + B)
D.	$6,788	Annual Required Contribution = A + B + C

Definitions

GASB 45 defines several unique terms not commonly employed in the funding of pension and retiree health plans. The definitions of the terms used in the GASB actuarial valuations are noted below.

1. **Actuarial Accrued Liability** – That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of plan benefits and expenses which is not provided for by the future Normal Costs.

2. **Actuarial Assumptions** – Assumptions as to the occurrence of future events affecting health care costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and Government provided health care 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.

3. **Actuarial Cost Method** – A procedure for determining the Actuarial Present Value of future 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.

4. **Actuarial Present Value** – The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

   a) adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, Social Security, marital status, etc.);
   b) multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned; and
   c) discounted according to an assumed rate (or rates) of return to reflect the time value of money.

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

6. **Annual Required Contribution (ARC)** – The employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.

7. **Explicit Subsidy** – The difference between (a) the amounts required to be contributed by the retirees based on the premium rates and (b) actual cash contribution made by the employer.

8. **Funded Ratio** – The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

9. **Healthcare Cost Trend Rate** – The rate of change in the 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.

Definitions (continued)

10. **Implicit Subsidy** – In an experience-rated healthcare plan that includes both active employees and retirees with blended premium rates for all plan members, the difference between (a) the age-adjusted premiums approximating claim costs for retirees in the group (which, because of the effect of age on claim costs, generally will be higher than the blended premium rates for all group members) and (b) the amounts required to be contributed by the retirees.

11. **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.

12. **Normal Cost** – The portion of the Actuarial Present Value of plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

13. **Pay-as-you-go** – A method of financing a benefit 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.

14. **Per Capita Costs** – The current cost of providing postretirement health care benefits for one year at each age from the youngest age to the oldest age at which plan participants are expected to receive benefits under the plan.

15. **Present Value of Future Benefits** – Total projected benefits include all benefits estimated to be payable to plan members (retirees and beneficiaries, terminated employees entitled to benefits but not yet receiving them, and current active members) as a result of their service through the valuation date and their expected future service. The actuarial present value of total projected benefits as of the valuation date is the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Expressed another way, it is the amount that would have to be invested on the valuation date so that the amount invested plus investment earnings will provide sufficient assets to pay total projected benefits when due.

16. **Select and Ultimate Rates** – Actuarial assumptions that contemplate different rates for successive years. Instead of a single assumed rate with respect to, for example, the investment return assumption, the actuary may apply different rates for the early years of a projection and a single rate for all subsequent years. For example, if an actuary applies an assumed investment return of 8% for year 20W0, then 7.5% for 20W1, and 7% for 20W2 and thereafter, then 8% and 7.5% select rates, and 7% is the ultimate rate.

17. **Substantive Plan** – The terms of an OPEB plan as understood by the employer(s) and plan members.