JUNE 30, 2016
ACTUARIAL VALUATION OF
THE POST RETIREMENT BENEFITS PLAN
OF
THE CITY OF SOMERVILLE

November 2016

Sherman Actuarial Services

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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, 2016. 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, 2016, the plan provisions and the health plans offered as of July 1, 2016.

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 7.5% 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

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Daniel Sherman, ASA, MAAA Date

SECTION II - REQUIRED INFORMATION

	Pay-as-You-Go 4.0%	Full Prefunding 7.5%	
a) Actuarial valuation date	June 30, 2016	June 30, 2016	Difference
b) Actuarial Value of Assets	$ 813,767	$ 813,767	$ 0
c) Actuarial Accrued Liability			
Active participants	$ 159,543,464	$ 80,233,519	$ 79,309,945
Retired participants	143,105,122	99,061,008	44,044,114
Total AAL	$ 302,648,586	$ 179,294,527	$ 123,354,059
d) Unfunded Actuarial Liability "UAL" [c - b]	$ 301,834,819	$ 178,480,760	$ 123,354,059
e) Funded ratio [b / c]	0.3%	0.5%	-0.2%
f) Annual covered payroll	$ 149,233,169	$ 149,233,169	
g) UAL as percentage of covered payroll	202.3%	119.6%	
h) Normal Cost for fiscal year 2016	$ 10,107,657	$ 3,907,634	$ 6,200,023
i) Amortization of UAL for fiscal year 2016*	$ 10,061,161	$ 9,230,613	$ 830,548
j) Interest to the end of the fiscal year	$ 0	$ 0	$ 0
k) Annual Required Contribution "ARC" for fiscal year 2016 [h + i + j]	$ 20,168,818	$ 13,138,247	$ 7,030,571
l) Estimated net claims cost	$ 9,258,576	$ 9,258,576	$ 0

SECTION III - MEDICAL PREMIUMS

Monthly Premiums effective July 1, 2016

Health benefits are available to employees and retirees through a number of plans. Retirees contribute either 20% 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 Select Care	688.25	1,651.76
Harvard Pilgrim Independence Plan	813.58	1,985.12
Harvard Pilgrim Primary Choice Plan	608.27	1,484.19
NHP Care	510.42	
Tufts Health Plan Navigator	683.95	1,668.84
Tufts Health Plan Spirit	513.52	1,236.19
UniCare State Indemnity Plan/Basic with CIC	998.91	2,338.26
UniCare State Indemnity Plan/Community Choice	485.93	1,166.27
UniCare State Indemnity Plan/Plus	653.03	1,560.67

Medicare Supplemental Plans

Fallon Senior Plan	$310.45
Harvard Pilgrim Medicare Enhance	437.64
Tufts Health Plan Medicare Complement	397.00
Tufts Health Plan Medicare Preferred	275.50
Unicare State Indemnity Plan/Medicare Ext with CIC	373.32

SECTION IV – BREAKOUTS

Number of Employees	General Government	Public Safety	Education	Public Works	Culture and Recreation	Water Enterprise	Sewer Enterprise	Pension	Total
Actives	301	318	934	93	50	14	4	5	1,719
Retirees and Survivors (with benefits)	192	449	840	154	25	8	2	6	1,676
Total	493	767	1,774	247	75	22	6	11	3,395
Accrued Liability @ 4.0%									
Actives	22,289,297	40,785,587	80,442,243	9,563,553	4,678,995	1,134,720	299,522	349,547	159,543,464
Retirees and Beneficiaries	15,772,400	38,974,243	74,428,639	11,094,260	1,546,165	625,319	135,429	528,667	143,105,122
Total	38,061,697	79,759,830	154,870,882	20,657,813	6,225,160	1,760,039	434,951	878,214	302,648,586
Assets	102,341	214,460	416,420	55,545	16,738	4,732	1,170	2,361	813,767
Unfunded Accrued Liability	37,959,356	79,545,370	154,454,462	20,602,268	6,208,422	1,755,307	433,781	875,853	301,834,819
Annual Required Contribution @ 4.0%									
Normal Cost with interest	1,456,796	1,683,475	6,251,422	398,058	223,526	47,673	18,639	28,068	10,107,657
Amortization of UAL with interest	1,265,312	2,651,512	5,148,482	686,742	206,947	58,510	14,459	29,195	10,061,161
Total	2,722,108	4,334,987	11,399,904	1,084,800	430,473	106,183	33,098	57,263	20,168,818
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 @ 7.5%									
Active	11,674,060	21,215,040	39,002,971	5,134,860	2,300,043	580,108	136,758	189,679	80,233,519
Retirees and Beneficiaries	11,164,226	26,779,213	51,116,108	7,935,831	1,134,631	449,954	99,756	381,289	99,061,008
Total	22,838,286	47,994,253	90,119,079	13,070,691	3,434,674	1,030,062	236,514	570,968	179,294,527
Assets	103,657	217,832	409,025	59,324	15,589	4,675	1,073	2,591	813,767
Unfunded Accrued Liability	22,734,629	47,776,421	89,710,054	13,011,367	3,419,085	1,025,387	235,441	568,377	178,480,760
Annual Required Contribution @ 7.5%									
Normal Cost with interest	633,347	668,159	2,311,459	166,903	90,154	16,707	7,194	13,711	3,907,634
Amortization of UAL with interest	1,175,783	2,470,886	4,639,597	672,918	176,827	53,031	12,176	29,395	9,230,613
Total	1,809,130	3,139,045	6,951,056	839,821	266,981	69,738	19,370	43,106	13,138,247
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	1,047,735	1,088,242	3,264,880	128,695	126,771	34,768	9,024	14,047	5,714,162

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, 2016	813,767	302,648,586	301,834,819	0.27%	149,233,169	202.3%
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)
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
2016	20,168,818	4,112,125	3,426,771	20,854,172	8,533,496	12,320,675	115,123,809
2017	21,086,425	4,604,952	3,837,460	21,853,917	9,258,566	12,595,351	127,719,159

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
2016	10,107,657	10,061,161	20,168,818	8,533,496
2017	10,562,502	10,523,923	21,086,425	9,258,566
2018	11,037,815	10,996,316	22,034,131	10,045,243
2019	11,534,517	11,477,340	23,011,857	10,726,983
2020	12,053,570	11,971,649	24,025,219	11,088,511
2021	12,595,981	12,491,436	25,087,417	11,638,488
2022	13,162,800	13,032,121	26,194,921	12,407,838
2023	13,755,126	13,587,931	27,343,057	13,161,746
2024	14,374,107	14,160,879	28,534,986	13,702,327
2025	15,020,942	14,759,827	29,780,769	14,479,287
2026	15,696,884	15,378,745	31,075,629	14,994,413
2027	16,403,244	16,028,342	32,431,586	15,690,955
2028	17,141,390	16,704,731	33,846,121	16,397,048
2029	17,912,753	17,409,763	35,322,516	17,134,915
2030	18,718,827	18,144,654	36,863,481	17,905,986
2031	19,561,174	18,910,673	38,471,847	18,711,756
2032	20,441,427	19,709,143	40,150,570	19,553,785
2033	21,361,291	20,541,444	41,902,735	20,433,705
2034	22,322,549	21,409,014	43,731,563	21,353,222
2035	23,327,064	22,313,353	45,640,417	22,314,117
2036	24,376,782	23,256,025	47,632,807	23,318,252
2037	25,473,737	24,238,659	49,712,396	24,367,573
2038	26,620,055	25,262,957	51,883,012	25,464,114
2039	27,817,957	26,330,691	54,148,648	26,609,999
2040	29,069,765	27,443,708	56,513,473	27,807,449
2041	30,377,904	28,603,937	58,981,841	29,058,784
2042	31,744,910	29,813,386	61,558,296	30,366,430
2043	33,173,431	31,074,152	64,247,583	31,732,919
2044	34,666,235	32,388,418	67,054,653	33,160,900
2045	36,226,216	33,758,464	69,984,680	34,653,141
2046	37,856,396	35,186,664	73,043,060	36,212,532

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

SECTION VI - SCHEDULE OF EMPLOYER CONTRIBUTIONS

Full Prefunding Basis (7.5%)

Fiscal Year Ending In	Normal Cost	Amortization of UAL	ARC*	Estimated Claims Cost
2016	3,907,634	9,230,613	13,138,247	8,533,496
2017	4,083,478	9,599,838	13,683,316	9,258,566
2018	4,267,235	9,983,832	14,251,067	10,045,243
2019	4,459,261	10,383,185	14,842,446	10,726,983
2020	4,659,928	10,798,512	15,458,440	11,088,511
2021	4,869,625	11,230,452	16,100,077	11,638,488
2022	5,088,758	11,679,670	16,768,428	12,407,838
2023	5,317,752	12,146,857	17,464,609	13,161,746
2024	5,557,051	12,632,731	18,189,782	13,702,327
2025	5,807,118	13,138,040	18,945,158	14,479,287
2026	6,068,438	13,663,562	19,732,000	14,994,413
2027	6,341,518	14,210,104	20,551,622	15,690,955
2028	6,626,886	14,778,508	21,405,394	16,397,048
2029	6,925,096	15,369,648	22,294,744	17,134,915
2030	7,236,725	15,984,434	23,221,159	17,905,986
2031	7,562,378	16,623,811	24,186,189	18,711,756
2032	7,902,685	17,288,763	25,191,448	19,553,785
2033	8,258,306	17,980,314	26,238,620	20,433,705
2034	8,629,930	18,699,527	27,329,457	21,353,222
2035	9,018,277	19,447,508	28,465,785	22,314,117
2036	9,424,099	20,225,408	29,649,507	23,318,252
2037	9,848,183	21,034,424	30,882,607	24,367,573
2038	10,291,351	21,875,801	32,167,152	25,464,114
2039	10,754,462	22,750,833	33,505,295	26,609,999
2040	11,238,413	23,660,866	34,899,279	27,807,449
2041	11,744,142	24,607,301	36,351,443	29,058,784
2042	12,272,628	25,591,593	37,864,221	30,366,430
2043	12,824,896	26,615,257	39,440,153	31,732,919
2044	13,402,016	27,679,867	41,081,883	33,160,900
2045	14,005,107	28,787,062	42,792,169	34,653,141
2046	14,635,337	-	14,635,337	36,212,532

* 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: 7.50% 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
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 2016-17 at age 64 and 65 are $14,138 and $4,101, respectively. Medicare eligible retirees’ per capita claims costs at age 65 is $3,495.

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
NON-TEACHERS

The below tables represent values of the assumed annual rates of withdrawal, disability, death and service retirement:

Group 1 and 2

Age	Disability	Service Retirement Male	Service Retirement Female	Service Retirement Male Post 2012 Hire	Service Retirement Female Post 2012 Hire
25	0.0001				
30	0.0002				
35	0.0003				
40	0.0007				
45	0.0010				
50	0.0013	0.0360	0.1019		
55	0.0016	0.0477	0.0469		
60	0.0018	0.1057	0.0774	0.0477	0.0469
62	0.0019	0.1473	0.1168	0.0632	0.0509
65	0.0016	0.2615	0.1939	0.1057	0.0774
69	0.0014	0.2500	0.2000	0.2136	0.1708

Years of Service	Rates of Withdrawal
0	0.2800
5	0.1020
10	0.0650
15	0.0417
20	0.0400
25	0.0400
30+	0.0000

Group 4

Age	Disability	Service Retirements Pre 2012	Service Retirements Post 2012
25	0.0005		
30	0.0010		
35	0.0020		
40	0.0025		
45	0.0040	.0443	
50	0.0076	.0382	0.0191
55	0.0076	.1110	0.0370
60	0.0065	.1871	0.0936
62	0.0065	.2176	0.1741
65	0.0000	1.0000	0.2500

Years of Service	Rates of Withdrawal
0 - 1	0.150
2 - 3	0.125
4 - 5	0.100
6 - 7	0.075
8 - 9	0.050
10 - 19	0.060
20+	0.000

Mortality: It is assumed that both pre-retirement mortality and beneficiary mortality is represented by the RP-2014 Blue Collar Mortality with Scale MP-2015, fully generational. Mortality for retired members for Group 1 and 2 is represented by the RP-2014 Blue Collar Mortality Table set forward five years for males and 3 years for females, fully generational. Mortality for retired members for Group 4 is represented by the RP-2014 Blue Collar Mortality Table set forward three years for males, and six years for females, fully generational. Mortality for disabled members for Group 1 and 2 is represented by the RP-2000 Mortality Table set forward six years. Mortality for disabled members for Group 4 is represented by the RP-2000 Mortality Table set forward two years. Generational adjusting is based on Scale MP-2015.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

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: RP-2014 Blue Collar Mortality with Scale MP-2015, fully generational. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 6 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 20% 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, 2020: 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.