REPORT ON THE
ACTUARIAL VALUATION
OF THE POST RETIREMENT BENEFITS
OF THE VERMONT STATE EMPLOYEES'
RETIREMENT SYSTEM
PREPARED AS OF JUNE 30, 2008

November 2008

buckconsultants.
an ACS company

<u>TABLE OF CONTENTS</u>

SECTION I - OVERVIEW

The Board of Trustees of the Vermont State Employees' Retirement System has engaged Buck to prepare an actuarial valuation of their post-retirement benefits program as of June 30, 2008. The State Treasurer's Office provided the employee data and premium information used in the completion of this study.

The purposes of the valuation are to measure the current liabilities of the System for its post-retirement benefits program, to determine the level of contributions necessary to assure sound funding of such benefits and to provide reporting and disclosure information for financial statements, governmental agencies and other interested parties. This valuation report contains information that is required for compliance with the Governmental Accounting Standards Board's Statements 43 and 45, which relate to accounting and financial reporting for post-employment benefits other than pensions.

We performed the calculations assuming that the System would continue its current practice of providing the bulk of these benefits on a pay-as-you-go basis, e.g. assuming that there is no meaning pre-funding of such benefits. As requested, we have also provided an alternative scenario that assumes that the System's post-retirement medical benefits other than pensions are funded in a manner similar to that used for pensions. Section II provides a summary of the principal valuation results. Section V provides a projection of expense and funding amounts.

David Driscoll is a Fellow of the Society of Actuaries and Daniel Sherman is an Associate of the Society of Actuaries. We are Members of the American Academy of Actuaries. We meet the Qualification Standards of the Academy to render the actuarial opinions contained herein. This report has been prepared in accordance with all applicable Actuarial Standards of Practice, and we are available to answer questions concerning it.

Respectfully Submitted,
BUCK CONSULTANTS, LLC

November 14, 2008

Daniel W. Sherman, ASA, MAAA, EA — Date
Director and Consulting Actuary

November 14, 2008

David L. Driscoll, FSA, MAAA, EA — Date
Principal and Consulting Actuary

SECTION I - OVERVIEW

The plan experienced a net increase in its accrued liability over the past year, primarily due to year-to-year increases in premiums in excess of those assumed in the prior valuation and a net increase in its participant population from 11,701 to 11,815.

The assumed discount rate on a pay-as-you-go basis was increased to 4%. The healthcare trend rates were increased as well. All other actuarial assumptions and methods used in this valuation are the same as those used in 2007. For the scenario in which the State makes contributions at the level of the Annual Required Contribution (ARC), we have also provided costs and liabilities on a fully-funded basis using a discount rate of 8.25%.

In our examination of the State's 2007 CAFR, we noted that the actual claims cost for the System's retirees was $23.4 million in fiscal 2007. At the time the 2007 valuation was completed, this figure was not available. In completing this year's valuation, we used 2008 estimated retiree claims cost of $24.8 million to help determine the implicit subsidy of active employees' medical costs for retirees. According to the Implementation Guide for GASB 45, the State should adjust the cash costs for active and retiree medical costs so that the higher actual cash costs of retiree coverage are reflected as contributions for GASB 45 purposes. This would result in lower active medical costs, offsetting some of the Annual OPEB Cost reflected by the State under GASB 45.

The plan experienced an actuarial loss of about $5.2 million in fiscal year 2008, due to greater increases in benefit costs than had been assumed. The assumed increase for the year in the prior valuation was 7.00%. The actual rates of increase were as follows:

Total Choice	9.53%
Health Guard PPO	9.53%
Selectcare POS	9.53%
SafetyNet	9.53%

Other factors contributing to the rise in liabilities from their 2007 levels were an increase in the measurement of the implicit subsidy and an increase in the medical cost trend rate. The effects of these factors were partially offset by in the movement of the discount rate from 3.75% to 4.00% in the pay-as-you go scenario.

GASB Staff Technical Bulletin No. 2006-1, Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D, was issued on June 30, 2006. The Technical Bulletin provides that GASB OPEB calculations cannot reflect offsets for future Medicare Part D subsidy payments. Instead, the payments are to be reflected when the drug subsidy is actually earned (i.e., when the drug benefit costs for which the subsidy is due have been incurred by the participants.)

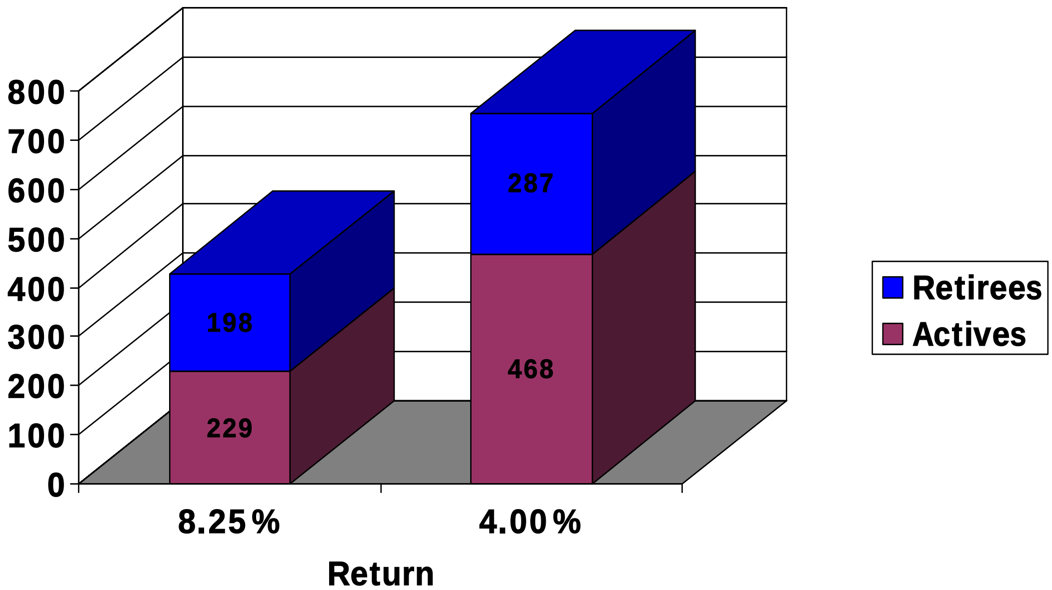
SECTION II – REQUIRED INFORMATION

		Pre-Funding Basis	Pay-as-you-go Basis
a)	Assumed discount rate	8.25%	4.00%
b)	Actuarial value of assets	$ 3,663,518	$ 3,663,518
c)	Actuarial accrued liability		
	Active Participants	$ 229,147,049	$ 467,967,442
	Retired Participants	198,013,153	286,722,632
	Total	$ 427,160,202	$ 754,690,074
d)	Unfunded actuarial liability (c. - b.)	$ 423,496,684	$ 751,026,556
e)	Funded ratio	0.9%	0.5%
f)	Annual covered payroll	$ 404,937,574	$ 404,937,574
g)	Unfunded actuarial liability as a percentage of covered payroll	104.6%	185.5%
h)	Normal cost for the 2009 fiscal year	$ 15,528,227	$ 36,950,755
i)	Amortization of unfunded actuarial liability for the 2009 fiscal year (30-year)	$ 21,216,621	$ 21,716,204
j)	Annual Required Contribution (ARC) for the 2009 fiscal year* (h. + i.)	$ 36,744,848	$ 58,666,959
k)	Expected net retiree claims	$ 23,053,284	$ 23,053,284

* Payment is assumed to be made at the beginning of the fiscal year.

SECTION II – REQUIRED INFORMATION

Actuarial Accrued Liability in $ millions

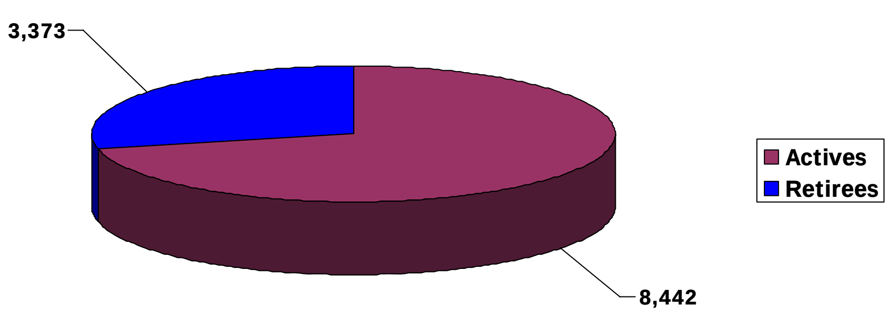


SECTION III - MEMBERSHIP DATA AND MEDICAL PREMIUM

Number of participants included in valuation

	Total
Active	
Group A	25
Group C	412
Group D	51
Group F	7,954
Total	8,442
Retired	3,373
Total	11,815

Participants



SECTION III - MEMBERSHIP DATA AND MEDICAL PREMIUM

Monthly State Premium Costs (including expenses) Effective January 1, 2008

	State Share	Retirees	Dependents
Total Choice			
Retiree under 65	$492.23	175	0
2 Person under 65	$984.46	132	132
Family Retiree under 65	$1,353.63	23	23
Retiree under 65 and 1 over 65	$696.72	67	67
3 Person, Retiree and 1 under 65 and 1 over 65	$916.36	3	3
Retiree over 65	$204.49	1396	0
2 Person over 65	$408.98	748	748
Retiree over 65 and 1 under 65	$696.72	186	186
Retiree over 65 and 2 or more under 65	$916.36	6	6
Retiree over 65 and 2 or more dependents, 1 Medicare eligible	$600.35	6	6
Health Guard PPO			
Retiree under 65	$441.50	0	0
2 Person under 65	$883.01	0	0
Family Retiree under 65	$1,214.14	0	0
Retiree under 65 and 1 over 65	$634.72	0	0
3 Person, Retiree and 1 under 65 and 1 over 65	$829.70	0	0
Retiree over 65	$193.22	0	0
2 Person over 65	$386.42	0	0
Retiree over 65 and 1 under 65	$634.72	0	0
Retiree over 65 and 2 or more under 65	$829.70	0	0
Retiree over 65 and 2 or more dependents, 1 Medicare eligible	$565.38	0	0
SelectCare POS			
Retiree under 65	$411.96	256	0
2 Person under 65	$823.92	268	268
Family (Retiree under 65)	$1,132.89	51	51
SafetyNet			
Retiree under 65	$288.62	4	0
2 Person under 65	$577.26	0	0
Family (Retiree under 65)	$793.72	0	0
Other		52	0
Total		3,373	1,490

THE NUMBER OF ACTIVE MEMBERS
DISTRIBUTED BY AGE AND SERVICE
AS OF JUNE 30, 2008

	Years of Service									
	0 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*
AGE										
Under 20	2	0	0	0	0	0	0	0	0	2
20 to 24	196	2	0	0	0	0	0	0	0	198
25 to 29	456	75	1	0	0	0	0	0	0	532
30 to 34	433	245	54	0	0	0	0	0	0	732
35 to 39	378	309	202	97	7	0	0	0	0	993
40 to 44	344	265	186	194	145	14	0	0	0	1,148
45 to 49	322	250	162	158	214	136	11	0	0	1,253
50 to 54	273	283	158	173	185	216	111	10	0	1,409
55 to 59	184	205	134	135	199	195	187	63	6	1,308
60 to 64	85	106	68	66	99	98	75	81	24	702
65 to 69	14	27	23	8	15	16	9	10	13	135
70 & up	2	7	2	6	2	1	1	4	5	30
TOTAL	2,689	1,774	990	837	866	676	394	168	48	8,442

SECTION IV – REQUIRED SUPPLEMENTARY INFORMATION

The Schedule of Funding Progress will be required to be included in the State's Financial Statements beginning with the fiscal year ending in 2008.

SCHEDULE OF FUNDING PROGRESS WITH ASSUMPTIONS BASED ON A POLICY OF PRE-FUNDING

(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
June 30, 2008	$3,664	$427,160	$423,497	0.9%	$404,937	104.6%
June 30, 2007	$2,211	$316,777	$314,566	0.7%	$386,917	81.3%
June 30, 2006	$0	$303,492	$303,492	0.0%	$369,310	82.2%
June 30, 2005	$0	$289,173	$289,173	0.0%	$349,258	82.8%

These results are based on a discount rate of 8.25%.

SCHEDULE OF FUNDING PROGRESS WITH ASSUMPTIONS BASED ON POLICY OF PAY-AS-YOU-GO FUNDING

(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
June 30, 2008	$3,664	$754,690	$751,027	0.5%	$404,937	185.5%
June 30, 2007	$2,211	$606,499	$604,288	0.4%	$386,917	156.2%
June 30, 2006	$0	$552,152	$552,152	0.0%	$369,310	149.5%
June 30, 2005	$0	$529,027	$529,027	0.0%	$349,258	151.5%

These results are based on a discount rate of 3.75% for 2005 – 2007 and 4.00% for 2008.

SECTION V – FORECASTS

The Government Accounting Standards Board's Statements 43 and 45, which cover accounting and financial reporting for post-employment benefits other than pensions, outline 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 assumed salary increases.

In the amortization schedule shown on the following pages, the amortization of the unfunded accrued liability is made in installments that increase annually by 5%. The normal cost is expected to increase at a rate that reflects both the assumed ultimate health care trend rate and the fact that employees hired after June 30, 2008, will be covered under a less generous plan. The contributions were computed assuming that the contribution is paid on July 1, (i.e., at the beginning of the fiscal year). Below is a comparison of the forecasted Annual Required Contributions, computed under discount rates of 8.25% and 4.00%.

Also included is a forecast of the pay-as-you-go amount. If the State chooses to not fund the obligation, the difference between the pay-as-you-go amount and the actuarially determined contribution would be recorded as a liability on the financial statements. The liability will grow with interest and new net differences in successive years.

SECTION V – FORECASTS

FORECAST OF FUNDING AND GASB EXPENSE UNDER A DISCOUNT RATE OF 8.25%

Fiscal Year Ending in	Normal Cost	Amortization of the Unfunded Actuarial Liability	Total State ARC	Pay-as-you-go	Difference
2009	15,528,227	21,216,621	36,744,848	23,053,284	13,691,564
2010	15,590,545	22,277,452	37,867,997	25,956,794	11,911,203
2011	15,606,508	23,391,325	38,997,833	29,089,988	9,907,845
2012	15,416,833	24,560,891	39,977,724	31,770,568	8,207,156
2013	15,245,616	25,788,936	41,034,552	34,224,827	6,809,725
2014	15,123,459	27,078,382	42,201,841	36,395,216	5,806,625
2015	15,006,242	28,432,302	43,438,544	38,555,435	4,883,109
2016	15,005,378	29,853,917	44,859,295	40,341,136	4,518,159
2017	15,046,019	31,346,613	46,392,632	42,118,518	4,274,114
2018	15,320,536	32,913,943	48,234,479	44,055,736	4,178,743
2019	15,948,821	34,559,640	50,508,461	45,425,300	5,083,161
2020	16,614,290	36,287,622	52,901,912	47,268,914	5,632,998
2021	17,318,957	38,102,003	55,420,960	49,016,947	6,404,013
2022	18,193,233	40,007,104	58,200,337	51,078,792	7,121,545
2023	19,229,638	42,007,459	61,237,097	52,885,690	8,351,407
2024	20,220,112	44,107,832	64,327,944	54,697,683	9,630,261
2025	21,218,497	46,313,223	67,531,720	56,865,727	10,665,993
2026	22,207,033	48,628,884	70,835,917	59,077,057	11,758,860
2027	23,320,949	51,060,329	74,381,278	61,652,497	12,728,781
2028	24,468,533	53,613,345	78,081,878	64,301,100	13,780,778
2029	25,805,340	56,294,012	82,099,352	66,455,434	15,643,918
2030	27,130,941	59,108,713	86,239,654	68,921,821	17,317,833
2031	28,415,851	62,064,149	90,480,000	71,693,782	18,786,218
2032	29,801,579	65,167,356	94,968,935	74,517,660	20,451,275
2033	31,248,657	68,425,724	99,674,381	77,316,538	22,357,843
2034	32,764,691	71,847,010	104,611,701	80,284,752	24,326,949
2035	34,411,127	75,439,361	109,850,488	83,327,713	26,522,775
2036	36,072,531	79,211,329	115,283,860	85,644,266	29,639,594
2037	37,811,229	83,171,895	120,983,124	88,843,890	32,139,234
2038	39,619,535	87,330,490	126,950,025	92,280,005	34,670,020
2039	41,514,322	0	41,514,322	95,959,614	-54,445,292

SECTION V – FORECASTS

FORECAST OF FUNDING AND GASB EXPENSE UNDER A DISCOUNT RATE OF 4%

Fiscal Year Ending in	Normal Cost	Amortization of the Unfunded Actuarial Liability	Total State ARC	Pay-as-you-go	Difference
2009	36,950,755	21,716,204	58,666,959	23,053,270	35,613,689
2010	37,099,046	22,935,080	60,034,126	25,956,794	34,077,332
2011	37,137,031	24,111,462	61,248,493	29,089,988	32,158,505
2012	36,685,683	25,242,281	61,927,964	31,770,568	30,157,396
2013	36,278,258	26,333,709	62,611,967	34,224,827	28,387,140
2014	35,987,575	27,396,053	63,383,628	36,395,216	26,988,412
2015	35,708,647	28,428,802	64,137,449	38,555,435	25,582,014
2016	35,706,591	29,450,143	65,156,733	40,341,136	24,815,597
2017	35,803,299	30,462,833	66,266,133	42,118,518	24,147,615
2018	36,456,536	31,478,551	67,935,088	44,055,736	23,879,352
2019	37,951,595	32,539,472	70,491,066	45,425,300	25,065,766
2020	39,535,136	33,636,085	73,171,220	47,268,914	25,902,306
2021	41,211,951	34,775,441	75,987,392	49,016,947	26,970,445
2022	43,292,367	35,962,134	79,254,501	51,078,792	28,175,709
2023	45,758,582	37,217,178	82,975,759	52,885,690	30,090,069
2024	48,115,500	38,539,868	86,655,367	54,697,683	31,957,684
2025	50,491,243	39,922,977	90,414,220	56,865,727	33,548,493
2026	52,843,550	41,366,942	94,210,492	59,077,057	35,133,435
2027	55,494,209	42,872,432	98,366,641	61,652,497	36,714,144
2028	58,224,984	44,442,158	102,667,142	64,301,100	38,366,042
2029	61,406,031	46,106,808	107,512,839	66,455,434	41,057,405
2030	64,560,413	47,860,173	112,420,586	68,921,821	43,498,765
2031	67,617,967	49,693,879	117,311,847	71,693,782	45,618,065
2032	70,915,427	51,616,825	122,532,252	74,517,660	48,014,592
2033	74,358,874	53,637,706	127,996,580	77,316,538	50,680,042
2034	77,966,407	55,760,382	133,726,789	80,284,752	53,442,037
2035	81,884,244	57,996,051	139,880,294	83,327,713	56,552,581
2036	85,837,698	60,371,724	146,209,421	85,644,266	60,565,155
2037	89,975,080	62,872,493	152,847,572	88,843,890	64,003,682
2038	94,278,100	65,501,368	159,779,468	92,280,005	67,499,463
2039	98,786,910	68,262,484	167,049,394	95,959,614	71,089,779

SECTION VI - ACTUARIAL ASSUMPTIONS AND METHODS

VERMONT STATE EMPLOYEES – ALL GROUPS

Assumed investment return — 8.25% per year, net of investment expenses, is the assumed rate of return on assets accumulated in the System's trust for benefit payments; 4.00% per year for a non-funded plan.

Actuarial cost method: Projected Unit Credit with benefits attributed from date of hire until fully eligible.

Medical care and state share inflation:

Fiscal Year Ending	Medical Inflation Rate
2009	8.0%
2010	8.0
2011	7.0
2012	6.0
2013 & After	5.0

Amortization period: Closed basis. Thirty-year amortization starting in the fiscal year starting in 2009 with payments increasing by 5% annually.

Retirement eligibility: At termination of employment, employee must be eligible for retirement as prescribed by the terms of the State Employees' Retirement System of Vermont to receive medical coverage:

Group A: Earlier of (a) age 55 with 5 years of service, and (b) 30 years of service.

Group C: Earlier of (a) age 55, (b) age 50 with 20 years of service, and (c) 30 years of service.

Group D: Age 55 with 5 years of service.

Group F: Earlier of (a) age 55 with 5 years of service, and (b) 30 years of service.

SECTION VI - ACTUARIAL ASSUMPTIONS AND METHODS

Health plans: Retirees without Medicare may select from four plans: Total Choice, Health Guard PPO, SelectCare POS and SafteyNet. Retirees with Medicare may select from two plans: Total Choice and Health Guard. The retirees pay 20% of the premium costs.

Pre-age 65 retirees: Current retirees who are under age 65 are assumed to remain in their current medical plan until age 65, at which time they enter the average plan provided to current post-65 retirees.

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. The weighted average premium includes an adjustment based on age to account for the implicit subsidy of older employees' true benefit cost.

At age 65, all participants are assumed to participate in post-65 plans in the same proportions as current retirees over age 65.

Retirees and beneficiaries remain in their current medical plan until death. If a retiree predeceases his/her beneficiary, the beneficiary will continue to have coverage until his or her death. However, the State does not cover any of the costs of coverage.

Post-age 65 retirees: Current retirees over age 65 remain in their current medical plan until death. Beneficiaries remain in their current medical plan until death. Therefore, if the retiree predeceases the beneficiary, the beneficiary will continue to have coverage until his or her death. However, the State does not cover any of the costs of coverage.

Coverage: It is assumed that 80% of current active employees will elect retiree medical coverage.

Administrative expenses: No provision made beyond healthcare administration; expenses of the System are paid by the State.

SECTION VI - ACTUARIAL ASSUMPTIONS AND METHODS

Medical plan costs:

Estimated gross per capita incurred claim costs for 2008-09 at age 64 and 65 was $11,427 and $2,385, respectively. Per capita claims costs at other ages reflect estimated underlying costs based on Morbidity. It is assumed that future retirees are Medicare eligible at age 65. Per capita costs were developed from the State developed monthly costs and an estimate of the total retiree claims. The plans are experienced-rated.

Future employee cost sharing is assumed to be a constant percentage of total costs.

Age-based morbidity:

Per capita costs are adjusted to reflect expected cost increases related to age. The increase in the net incurred claims was assumed to be:

Age	Annual Increase Retiree
49 and below	2.6%
50-54	3.2%
55-59	3.4%
60-64	3.7%
65-69	3.2%
70-74	2.4%
75-79	1.8%
80 and over	0.0%

SECTION VI - ACTUARIAL ASSUMPTIONS AND METHODS

Groups A, D and F

Separations from service: Representative values of the assumed annual rates of withdrawal, vested retirement, disability and death are as follows:

Age	Withdrawal and Vested Retirement[1]	Disability	Death Men	Death Women
25	3.15%	.03%	.03%	.02%
30	2.52	.04	.04	.02
35	2.10	.05	.07	.04
40	1.95	.08	.10	.06
45	1.73	.13	.13	.09
50	1.44	.21	.18	.14
55	2.52	.35	.25	.23
59	2.52	.52	.37	.34
60	2.50	.57	.41	.37
61	2.49	.62	.46	.41

[1] Increased during first 10 years of service.

Retirement[2]					
Age	Rate	Age	Rate	Age	Rate
55	5.0%	60	7.0%	65	25.0%
56	4.2	61	14.0	66	15.0
57	5.6	62	28.0	67	17.5
58	6.3	63	17.5	68	17.5
59	7.0	64	17.5	69	20.0
				70	100.0

[2] All Group A and D members are assumed to retire when first eligible.

Deaths after retirement: According to the RP-2000 Mortality Tables for Healthy Annuitants for retirees and beneficiaries.

SECTION VI - ACTUARIAL ASSUMPTIONS AND METHODS

Groups A, D and F

Spouse's age:	Husbands are assumed to be 3 years older than their wives.
Covered spouses:	75.4% (71.4% for Group F) of male members and 64.0% (63.1% for Group F) of female members are assumed to be covering spouses.

SECTION VI - ACTUARIAL ASSUMPTIONS AND METHODS

Group C

Separations before retirement: Representative values of the assumed annual rates of withdrawal, vested retirement, disability and death are as follows:

Age	Withdrawal and Vested Retirement[1]	Disability	Death	
			Men	Women
25	3.60%	.15%	.03%	.02%
30	3.60	.20	.04	.02
35	3.60	.27	.07	.04
40		.40	.10	.06
45		.65	.13	.09
50		1.09	.18	.14
55		1.82	.25	.23
60		2.93	.41	.37

[1] Increased during first 5 years of service.

Early and normal retirement rates: All members are assumed to retire when first eligible.

Deaths after retirement: According to the RP-2000 Mortality Tables for Healthy Annuitants for retirees and beneficiaries.

Future expenses: No provision made; expenses of the System are paid by the State outside of the plan.

Spouse's age: Husbands are assumed to be 3 years older than their wives.

Covered spouses: 75.4% of male members and 64.0% of female members are assumed to be covering spouses.

SECTION VII - 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.

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 (NOO)
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 a 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.