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March 15, 2019

PERSONAL & CONFIDENTIAL

Ms. Pamela J. Wright
Hampton Charter Township
801 W. Center Road
Essexville, Michigan 48732-2094

RE: Hampton Charter Township OPEB Plan

Dear Pam:

Transmitted via email, this is a copy of your OPEB accounting report for the fiscal year ending December 31, 2018. This information is intended to assist you in complying with Governmental Accounting Standards Board Statement No. 74 (GASB 74) Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, and Statement No. 75 (GASB 75) Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.

The actuarial values shown in this report are based on December 31, 2017 results rolled forward to December 31, 2018.

Because GASB 74/75 is new, please discuss these results with your accountants and let us know if additional information is needed.

If you have any questions about this report, please call me at (616) 742-9244.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Chris Veenstra'.

Christian R. Veenstra, ASA, MAAA, EA
President / Enrolled Actuary

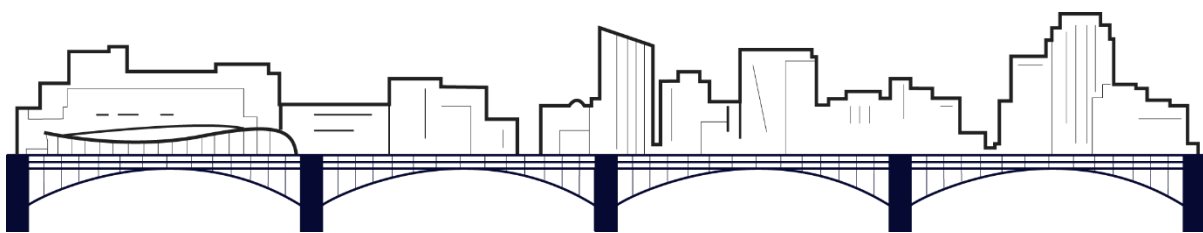
Enclosure

cc: David Quimby, Weinlander Fitzhugh

Hampton Charter Township OPEB Plan

Accounting Report

for the Period Ending December 31, 2018
under GASB Statements 74 & 75



Report presented by:



March 2019

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INTRODUCTION AND CERTIFICATION

The schedules included in this report have been prepared in order to provide the information necessary to comply with Governmental Accounting Standards Board (GASB) Statement Nos. 74 and 75. This information may, at the discretion of management of the plan sponsor and its auditor, be used for the preparation of its financial statements. The calculations herein have been made based on our understanding of GASB 74 and 75, and may be inappropriate for other purposes.

The calculations summarized in this report involve actuarial calculations that require assumptions about future events. We believe that the assumptions used in the report are within the range of possible assumptions that are reasonable and appropriate for the purposes for which they have been used. However, other assumptions are also reasonable and appropriate and their use would produce different results.

This report contains additional information and details related to plan provisions and recommended contribution calculations.

This report was prepared on the basis of participant data and asset values as reported to us by the plan sponsor. Watkins Ross relied upon the data as submitted, and has no reason to believe that any information, which would have a material effect on the results of this valuation, was not considered in the preparation of the report.

The actuary certifying this report represents herself as meeting the Qualification Standards of the American Academy of Actuaries to render actuarial opinions contained in the report.

Prepared by:



Lisa J. Hayes
Senior Pension Analyst

Certified by:



Leah A. Dudley, ASA, MAAA
Health Actuary

PLAN DESCRIPTION

Summary of Significant Accounting Policies

For purposes of measuring the net Other Post-Employment Benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the Plan and additions to/deductions from the Employer's fiduciary net position have been determined on the same basis as they are reported by the Employer. For this purpose, benefits payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

Hampton Charter Township OPEB Plan is a single employer plan established and administered by **Hampton Charter Township** and can be amended at its discretion.

Benefits Provided

A summary of plan provisions is available on page 12.

Summary of Plan Participants

As of December 31, 2017, Plan membership consisted of the following:

Inactive plan members receiving benefits	34
Active plan members	<u>34</u>
Total participants	68

Contributions

The Hampton Charter Township OPEB Plan was established and is being funded under the authority of the Township. The plan's funding policy is that the employer will contribute any required amounts as determined by an annual actuarial valuation as a reference but not as a definitive requirement. Currently, benefit payments are made from general operating funds. Active participants do not make contributions to the plan. There are no long term contracts for contributions to the plan. The plan has no legally required reserves.

ASSUMPTIONS AND METHODS

The Township's OPEB liability was measured as of December 31, 2018.

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of December 31, 2017 rolled forward to the measurement date. The following actuarial assumptions were used in the measurement:

Inflation	Included in investment rate of return
Salary increases	3.5%
Investment rate of return	7.02%
20-year Aa Municipal bond rate	3.0%
Mortality	RP-2014 adjusted to 2006 total data set, headcount weighted with MP-2018 improvement

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global Equity	63.3%	8.00%
Global fixed income	32.2	5.50
Real Assets	2.2	6.20
Diversifying strategies	1.2	2.75
Cash	1.1	1.00

The sum of each target allocation times its long-term expected real rate is 7.02%.

Discount Rate

The discount rate used to measure the total OPEB liability was **3.02%**. The projection of cash flows used to determine the discount rate assumed that Township contributions will be up to \$10,000 annually. Based on those assumptions, the retirement plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the "depletion date"), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total OPEB Liability. The discount rate used for December 31, 2017 was 3.51%.

NET OPEB LIABILITY

Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at December 31, 2017	\$9,666,360	\$77,915	\$9,588,445
Changes during the Year			
Service Cost	150,398		150,398
Interest	339,151		339,151
Experience (Gains)/Losses	(87,606)		(87,606)
Change in plan terms	(4,690,056)		(4,690,056)
Change in actuarial assumptions	616,252		616,252
Contributions to OPEB trust		10,000 ¹	(10,000)
Contributions/benefit paid from general operating funds		308,673	(308,673)
Net Investment Income		(5,032)	5,032
Benefit Payments;			
Including Refunds of Employee Contributions	(308,673)	(308,673)	0
Administrative Expenses		(379)	379
Other Changes		0	0
Total Changes	(3,980,534)	4,589	(3,985,123)
Balance at December 31, 2018	\$5,685,826	\$82,504 ²	\$5,603,322

Net OPEB Liability – Discount and Trend Rate Sensitivities

The following presents the net OPEB liability (NOL) of the Township, calculated using trend and discount rates 1% higher and lower than base assumptions:

	1% Decrease	Current Rate	1% Increase
Discount			
Total OPEB Liability	\$6,485,672	\$5,685,826	\$5,042,765
Plan Fiduciary Net Position	<u>82,504</u>	<u>82,504</u>	<u>82,504</u>
Net OPEB Liability	\$6,403,168	\$5,603,322	\$4,960,261
Trend			
Total OPEB Liability	\$5,111,368	\$5,685,826	\$6,396,152
Plan Fiduciary Net Position	<u>82,504</u>	<u>82,504</u>	<u>82,504</u>
Net OPEB Liability	\$5,028,864	\$5,603,322	\$6,313,648

¹ Accrued 2018 contribution

² Includes accrued contribution

NET OPEB LIABILITY

OPEB Expense

Components of Township's OPEB Expense for the Fiscal Year Ending December 31, 2018

Below are the components of the Total OPEB Expense:

	Fiscal Year Ending 12/31/2018
Service Cost	\$150,398
Interest on Total OPEB Liability	339,151
Experience (Gains)/Losses	(12,462)
Changes of Assumptions	87,660
Changes in plan terms	(4,690,056)
Employee Contributions	0
Projected Earnings on OPEB Plan Investments	(4,413)
Investment Earnings (Gains)/Losses	1,889
Administrative Expenses	379
Other Changes in Fiduciary Net Position	<u>0</u>
Total OPEB Expense	\$(4,127,454)

OPEB Plan Fiduciary Net Position

The OPEB Plan Fiduciary Net Position as of December 31, 2018 is \$82,504.

Deferred Inflows and Outflows of Resources Related to OPEB Plan

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Experience (Gains)/Losses	0	75,144
Changes of Assumptions	528,592	0
Investment Earnings (Gains)/Losses	<u>7,556</u>	<u>0</u>
Total	\$536,148	\$75,144

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31,	Amount Recognized
2019	\$77,088
2020	77,088
2021	77,088
2022	77,088
2023	75,199
Thereafter	77,455

NET OPEB LIABILITY

Reconciliation of Net OPEB Liability

	Net OPEB Liability
Net OPEB Liability December 31, 2017	\$9,588,445
Total OPEB expense	(4,127,454)
Contributions	(318,673)
Change in deferred outflows of resources	536,148
Change in deferred inflows of resources	(75,144)
Net OPEB Liability December 31, 2018	\$5,603,322

Total OPEB Liability by Participant Status

	Total OPEB Liability
Active participants	\$503,900
Inactive participants receiving benefits	<u>5,181,926</u>
Total	\$5,685,826

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Changes in Net OPEB Liability and Related Ratios

Fiscal Year Ending	12/31/2018	12/31/2017
Total OPEB Liability		
Service Cost	\$150,398	\$145,298
Interest	339,151	333,090
Changes of Benefit Terms	(4,690,056)	0
Difference between Expected and Actual Experience	(87,606)	0
Change of Assumptions	616,252	0
Benefit Payments (Including Refunds of Employee Contributions)	(308,673)	(312,940)
Net Change in Total OPEB Liability	(3,980,534)	165,448
Total OPEB Liability – Beginning	9,666,360	9,500,912
Total OPEB Liability – Ending (a)	\$5,685,826	\$9,666,360
Plan Fiduciary Net Position		
Contributions to OPEB trust	10,000	10,000
Contributions/benefit payments made from general operating funds	308,673	312,940
Net Investment Income	(5,032)	9,185
Benefit Payments (Including Refunds of Employee Contributions)	(308,673)	(312,940)
Administrative Expenses	(379)	(303)
Other	0	0
Net Change in Fiduciary Net Position	4,589	18,882
Plan Fiduciary Net Position – Beginning	77,915	59,033
Plan Fiduciary Net Position – Ending (b)	82,504	77,915
Net OPEB Liability – Ending (a)-(b)	\$5,603,322	\$9,588,445
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	1.5%	0.8%
Covered Employee Payroll	Not available	Not available
Net OPEB Liability as Percentage of Payroll	Not available	Not available

Schedule of Employer Contributions

Actuarially Recommended Contribution (ARC)	Fiscal Year Ending December 31,		
	2019	2018 ¹	2018 ²
Normal cost	\$22,159	\$145,133	\$21,437
Amortization of unfunded liability	284,168 ³	793,414	283,629
Interest cost	<u>9,251</u>	<u>5,094</u>	<u>9,213</u>
Actuarially Determined Employer Contribution	\$315,578	\$943,641	\$314,279
Employer Contribution (benefit payments)	<u>TBD</u>	<u>(318,673)</u>	<u>(318,673)</u>
Contribution Deficiency/(Excess)	TBD	\$624,968	\$(4,394)
Covered Employee Payroll	Not avail.	Not avail.	Not avail.
Contribution as a Percentage of Covered Payroll	Not avail.	Not avail.	Not avail.

¹ From the 12/31/2017 report

² Recalculated to incorporate plan changes; based on 30-year, level dollar, amortization of unfunded liability

³ Based on 29-year, level dollar, amortization of unfunded liability; alternative funding scenarios could be considered

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

State of Michigan Public Acts 530 and 202 Information

Financial Information		2018
Assets (Fiduciary net position)		82,504
Liabilities (Total OPEB Liability)		5,685,826
Funded ratio for the Plan Year		1.5%
Actuarially determined contribution (30-year amortization)		\$314,279
Is ARC calculated in compliance with No. Letter 2018-3?		Yes
Membership		2018
Active members		34
Retirees and Beneficiaries		34
Premiums paid on behalf of the retirants		308,673
Actuarial Assumptions		2018
Actuarially assumed rate of investment return		7.02%
Discount rate		3.02%
Amortization method used for funding unfunded liability	Level percent of pay	
Amortization period used for funding unfunded liability		30 years
Is each division closed to new employees		No
Healthcare trend assumption (see page 9 of this report)	PA 202 uniform trend	
Uniform Assumptions		2018
Actuarial value of assets using uniform assumptions		82,504
Actuarial accrued liability using uniform assumptions		5,685,826
Funded ratio using uniform assumptions		1.5%
Actuarially determined contribution (ADC) using uniform assumptions		314,279
Information for Summary Report (minimum required contribution) ¹		2018
Retiree insurance premiums for the year (1)		308,673
Normal cost as a percent of covered payroll (2)		Not available
Covered payroll for employees hired after June 30, 2018 (3)		Not available
Normal cost for employees hired after June 30, 2018 (4) = (2)X(3)		Not available
Minimum required contribution under PA 202 (1) + (4)		Not available

¹ Senate Bill 686 requires that a local unit must contribute at least both of the following – Normal cost for employees first hired after June 30, 2018 and retiree premiums that are due to retirants in the retirement system; In order to obtain 40% funding, higher contributions would be needed

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Assumptions and methods for Calculation of Actuarially Determined Contribution

Valuation date December 31, 2017

Measurement Date December 31, 2018

Actuarial Methods

Cost method	Entry Age Normal (level percentage of compensation)
Amortization method	Level dollar
Asset valuation method	Market value of assets

Actuarial Assumptions

Discount rate – 3.02% for December 31, 2018 liability and 2019 contribution

Rationale – Average effective rate consisting of long-term return on assets and 20-year Aa Municipal Bond rate

20-year Aa Municipal Bond Rate – 3.00%

Rationale – Current bond rate

Salary scale – 3.5%

Rationale – Consistent with Uniform Assumptions under Public Act 202

Return on plan assets – 7.02%

Rationale – based on long term investment strategy

Mortality rates – RP-2014 adjusted to 2006 total data set, headcount weighted with MP-2018 improvement

Rationale – Contemporary table consistent with Uniform Assumptions under Public Act 202

Monthly per capita claims costs

Medical: for retiree or spouse, see rates below:

Age	Medical	Dental	Vision
60	765.38	39.83	7.11
61	792.45	40.59	7.35
62	810.21	41.36	7.51
63	832.49	42.15	7.73
64	846.03	42.94	7.85
65+	477.33	42.94	7.85

Rationale – actual monthly premiums in effect for 2018

Inflation rates

Medical:

Pre-65 – 8.5% in 2019 graded to 4.5% over 16 years

Post-65 – 7.0% in 2019 graded to 4.5% over 10 years

Dental & Vision: 3%

Rationale – consistent with national trends and Uniform Assumptions under Public Act 202

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Pre-65 HRA cost – \$750 annually per person

Rationale – estimated costs based on experience

Turnover rates – None

Rationale – Small group

Retirement assumption – Employees are assumed to retire at benefit eligibility

Rationale – Based on Employer Experience

Marital assumption – 60% of active employees will have a covered spouse at retirement with females two years younger than males; actual spouse data used for retirees

Rationale – consistent with experience

Utilization – 100% of future retirees are expected to receive contributions towards healthcare costs

Rationale – consistent with experience

40% excise tax on “high cost” group health coverage – When aggregated, premiums are not projected to exceed the 2022 thresholds; The thresholds were indexed by CPI plus 1% in 2023 and CPI only beginning in 2024; The CPI is assumed to be 3% in 2023 and following

Data Collection

Date and form of data – All personnel and asset data was prepared by the Plan sponsor or a representative and was generally relied upon as being correct and complete without audit by Watkins Ross

Changes since prior valuation

- Mortality tables updated
- Trend rates updated
- Salary scale adopted
- Discount rate changed from 3.51% to 3.02%

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Difference between Actual and Expected Experience

Year	Difference between expected and actual Experience	Recognition period (years)	Amount Recognized in Year Ended December 31,					Deferred Outflow of Resources	Deferred Inflow of Resources	
			2018	2019	2020	2021	2022			2023+
2018	(87,606)	7.03	(12,462)	(12,462)	(12,462)	(12,462)	(12,462)	(25,297)	-	(75,144)
Net recognized in OPEB expense			<u>\$ (12,462)</u>	<u>\$ (12,462)</u>	<u>\$ (12,462)</u>	<u>\$ (12,462)</u>	<u>\$ (12,462)</u>	<u>\$ (25,297)</u>	<u>\$ -</u>	<u>\$ (75,144)</u>

Schedule of Changes in Assumptions

Year	Changes in Assumptions	Recognition period (years)	Amount Recognized in Year Ended December 31,					Deferred Outflow of Resources	Deferred Inflow of Resources	
			2018	2019	2020	2021	2022			2023+
2018	616,252	7.03	87,660	87,660	87,660	87,660	87,660	177,950	528,592	-
Net recognized in OPEB expense			<u>\$ 87,660</u>	<u>\$ 87,660</u>	<u>\$ 87,660</u>	<u>\$ 87,660</u>	<u>\$ 87,660</u>	<u>\$ 177,950</u>	<u>\$ 528,592</u>	<u>\$ -</u>

Schedule of Differences between Projected and Actual Earnings on OPEB Plan Investments

Year	Difference between expected and actual earnings on OPEB assets	Recognition period (years)	Amount Recognized in Year Ended December 31,					Deferred Outflow of Resources	Deferred Inflow of Resources	
			2018	2019	2020	2021	2022			2023+
2018	9,445	5	1,889	1,889	1,889	1,889	1,889	-	7,556	-
Net recognized in OPEB expense			<u>\$ 1,889</u>	<u>\$ 1,889</u>	<u>\$ 1,889</u>	<u>\$ 1,889</u>	<u>\$ 1,889</u>	<u>\$ -</u>	<u>\$ 7,556</u>	<u>\$ -</u>

Total Deferred Outflow/(Inflow) of Resources

	Amount Recognized in Year Ended December 31,				
	2019	2020	2021	2022	2023
Total Deferred Outflow/(Inflow) of Resources	\$ 77,088	\$ 77,088	\$ 77,088	\$ 77,088	\$ 152,653

SUMMARY OF PLAN PROVISIONS

Benefit Eligibility		
Elected Officers and Trustees (Supervisor, Trustees, Treasurer, Clerk)	Elected prior to 4/1/04	At least 10, but not more than 20, years of service
	Elected after 4/1/04	25 years of service
Administrative and Department of Public Works		Age 60; 25 years of service
Department Heads (Assessor, Police Chief, Fire Chief, DPW Superintendent)	Hired prior to 4/1/04	10 years of service
	Hired after 4/1/04	25 years of service
Police	Hired prior to 6/1/15	Age 50; 25 years of service
	Hired after 6/1/15	Age 55; 25 years of service
Fire		Age 55; 25 years of service

Benefits		
Elected Officers and Trustees (Supervisor, Trustees, Treasurer, Clerk)		Up to \$500/month total for retiree only towards medical, dental and vision premium until Medicare eligibility age
Administrative and Department of Public Works	Retire prior to 3/1/2018	Up to \$500/month total for retiree and spouse towards medical, dental and vision premium
	Retiring after 3/1/2018	Up to \$500/month total for retiree only towards medical, dental and vision premium until Medicare eligibility age
Department Heads (Assessor, Police Chief, Fire Chief, DPW Superintendent)		Up to \$500/month for the retiree only towards medical, dental and vision premium until Medicare eligibility age
Police	Retired prior to 3/1/2018 and hired prior to 6/1/15	100% of premium for retiree and spouse for medical, dental, vision; at Medicare eligibility, the medical plan switches to a Medicare supplement
	Retired prior to 3/1/2018 and hired after 6/1/15	Up to \$350/month for the retiree and up to \$350/month for the spouse towards medical, dental, vision premium
	Retiring after 3/1/2018 and hired prior to 6/1/15	Up to \$1000/month for the retiree only towards coverage medical, dental, vision premium until Medicare eligibility age
	Retiring after 3/1/2018 and hired after 6/1/15	Up to \$500/month for the retiree only towards medical, dental, vision premium until Medicare eligibility age

SUMMARY OF PLAN PROVISIONS

Benefits		
Fire	Retired prior to 3/1/2018 and hired prior to 1/1/94	For retiree and spouse, 100% of medical, dental, vision premium; at Medicare eligibility, the medical plan switches to a Medicare supplement
	Retired prior to 3/1/2018 and hired after 1/1/94	For retirement before Medicare eligibility: Up to \$350/per month for the retiree and \$350/month for the spouse toward medical, dental, vision premiums
		For retirement after Medicare eligibility: Up to \$350/per month for retiree and spouse coverage and \$165/month toward single Medicare supplemental coverage
Retiring after 3/1/2018	Up to \$500/month for the retiree only towards medical, dental, vision premium until Medicare eligibility age	

Changes since prior valuation

- Eligibility and benefits updated to reflect plan changes made in 2018

GLOSSARY

A number of special terms and concepts are used in connection with OPEB plans and the OPEB accounting report. The following list reviews a number of these terms and provides a brief discussion of their meaning.

Accrued Benefit - Each participant has an accrued benefit under the plan. This is the amount of monthly benefit already earned. It is based on past employment with the Employer and is payable at normal retirement.

Actuarial Cost Method - This is a mathematical formula which is used to allocate the present value of projected benefits to past and future plan years.

Amortization – The difference between actual and expected investment returns, the difference between actual and expected experience, and the impact of any plan or assumption changes will be amortized and paid over future years.

Depletion Date (Cross-over Point) – The projected date (if any) where plan assets, including future contributions, are no longer sufficient to pay Projected Benefit Payments to current members.

Long-term expected rate of return – The rate of return based on the nature and mix of current and expected plan investments and over the time period from when an employee is hired to when all benefits to the employee have been paid.

Market Value of Assets – The market value of all assets in the fund including any accrued contribution for the previous plan year, which was not paid by the end of the year.

Measurement Date – The date the Total OPEB Liability, Fiduciary Net Position, and Net OPEB Liability are determined.

Net OPEB Liability (NOL) – The Total OPEB Liability less the Plan Fiduciary Net Position.

Plan Fiduciary Net Position – The market value of plan assets as of the measurement date.

OPEB Expense (OE) – The change in the Net OPEB Liability (NOL) recognized in the current measurement period. Changes to the NOL not fully recognized in a given year's OPEB expense will be maintained as deferred inflows and deferred outflows. These will be recognized incrementally in the OPEB expense over time.

Present Value - The present value of a future payment or a series of payments is the amount of each payment, discounted to recognize the time value of money, and further reduced for the probability that the payment might not be made because of death, disability or termination of employment.

Present Value of Accumulated Benefits - The discounted value of all monthly benefit payments due in the future, based on current accrued benefits.

GLOSSARY

Present Value of Vested Accumulated Benefits - The discounted value of all monthly benefit payments due in the future, based on current vested benefits.

Projected Benefit Obligation - The value of benefits earned to the measurement date, but based on anticipated salary levels at retirement, computed in accordance with Generally Accepted Accounting Principles (GAAP) accounting rules.

Projected Benefit Payments – All benefits projected to be payable to current active and inactive participants as a result of their past service and their expected future service.

Real Rate of Return – The rate of return on an investment after the adjustment to eliminate inflation.

Service Cost - The value of benefits earned during the current year computed in accordance with GAAP accounting rules.

Single Equivalent Discount Rate – The single rate that gives the same total present value as discounting the Projected Benefit Payments with the long-term expected rate of return until the Depletion Date and discounting any remaining Projected Benefit Payments with the yield on a 20-year AA/Aa tax-exempt municipal bond index.

Total OPEB Liability (TOL) – The actuarial present value of the accrued benefit determined under the Entry Age actuarial cost method calculated using the blended Single Equivalent Discount Rate.