

Town of Portsmouth

GASB 74/75 Disclosures for Fiscal Year Ending June 30, 2023
Based on Roll-Forward of OPEB Valuation as of June 30, 2022

CONTACT

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GovInvest
The Financial Forecasting Authority

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Actuarial Certification

Mr. Ryan Kilpatrick
Town of Portsmouth
2200 E. Main Road
Portsmouth, RI 02871

GovInvest has been engaged by Town of Portsmouth to complete an actuarial valuation for the Town of Portsmouth OPEB Plan as of June 30, 2022 which will be used as the basis of the financial accounting disclosure for fiscal year ending June 30, 2023 in accordance with GASB Statement No. 74 (Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans) and GASB Statement No. 75 (Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions).

The purpose of this report is to provide the Town with recommended contributions and the required information needed for financial statement disclosure purposes. The use of this report for any other purpose may not be appropriate. The content of this report may not be modified, reproduced, or provided to third parties, either in whole or in part, without our permission. GovInvest is not responsible for usage, inference, or misinterpretation of this report by third parties.

Results presented in this report are based on the census data, substantive plan provisions, and healthcare cost information provided by the Town and/or their benefit consultants. All information provided has been reviewed for reasonableness and clarifications or corrections have been requested where appropriate. We have not audited the information at the source, and therefore, do not accept responsibility for the accuracy or completeness of the data on which the information is based. Assumptions made related to missing data have been identified in this report. We are satisfied that the information provided is suitable and sufficient for the purpose of the measurement.

The valuation results were prepared using leased actuarial modeling software that produces results consistent with the purpose of this valuation and meets applicable regulatory requirements. The vendor is responsible for the development, maintenance, and improvement of these models. The models include comprehensive technical documentations that outline how the calculations are performed along with sample life outputs that allow the users to confirm with high degree of accuracy how the programmed benefit is applied to an individual with the proposed decrements and other assumptions. The actuarial team loads the participant data, programs the benefit provisions and proposed assumptions into the model and review sample life outputs and results under the supervision of credentialed actuaries who are proficient users of the software. We are not aware of any material limitations in the model nor any material inconsistencies in the assumptions used within the model.

The discount rate, other economic, and demographic assumptions have been selected by the Town with our recommendations and concurrence. We believe each assumption is reasonable based on its own merits and in combination represents reasonable expected experience of the Plan. All calculations have been completed in accordance with generally accepted actuarial principles and practices.

Future actuarial measurements may differ significantly from current measurements due to factors such as actual plan experience that differs from that anticipated by the economic and demographic assumptions as well as changes in future assumptions, substantive plan provisions, and/or applicable law. We have not analyzed the potential range of such differences due to the limited scope of our engagement. To our knowledge, there are no significant events prior to the current year's Measurement Date or as of the date of this report that may materially affect the results presented herein.

The undersigned meets the General Qualification Standards of the American Academy of Actuaries for the purpose of issuing Statement of Actuarial Opinion in the United States. Neither GovInvest nor any of its employees have any relationship with the Plan Sponsor that could impair or appear to impair the objectivity of this report.



Evi Laksana, ASA, MAAA
September 13, 2023

Section 1: Executive Summary

Town of Portsmouth (the "Town") sponsors a single-employer defined benefit OPEB plan that provides medical/prescription drug, dental, and vision coverage at retirement. Employees may continue health coverage with the Town at retirement for themselves, their spouses, and dependents for life once they meet certain eligibility requirements and as long as required contributions are made.

The results presented in this report are based on a roll-forward of the June 30, 2022 valuation with liabilities and assets measured as of June 30, 2023, for use in the Town's accrual-based financial statement for the fiscal year ending June 30, 2023.

The actuarial valuation is based on substantive plan provisions outlined in Section 6 of the Town of Portsmouth GASB 74/75 Disclosures for the fiscal year ending June 30, 2022. The valuation requires assumptions which are briefly listed in Section 7. For complete information on the actuarial methods and assumptions, refer to the Town of Portsmouth GASB 74/75 Disclosures for the fiscal year ending June 30, 2022 report.

The Plan Sponsor's next full valuation is as of June 30, 2024 with liabilities and assets measured as of June 30, 2024 for reporting in the Plan Sponsor's accrual-based financial statements for the fiscal year ending June 30, 2024.

Changes Since Prior Valuation

The Town's Net OPEB Liability has decreased from \$17,353,096 as of June 30, 2022 to \$15,451,393 as of June 30, 2023, which is attributable to a combination of the following factor(s):

1. Substantive plan provision changes as outlined in Section 4 that causes a slight net decrease in the liability.
2. Favorable asset experience that contributes to a decrease in the Net OPEB Liability.
3. Lower healthcare costs increase than expected that produces a liability decrease.
4. Increase in Single Equivalent Discount Rate (SEDR) based on the updated cross-over test, municipal bond index, and expected rate of return of the Trust, that produces a liability decrease.

Summary of Results

Presented below is the summary of results for the current fiscal year compared to the prior fiscal year.

| Fiscal Years | 2022/23 | 2021/22 |
|--|---------------|---------------|
| Valuation Date (VD) | June 30, 2022 | June 30, 2022 |
| Measurement Date (MD) | June 30, 2023 | June 30, 2022 |
| Membership Data as of Valuation Date | | |
| Inactive employees or beneficiaries currently receiving benefits | 55 | 55 |
| Inactive employees entitled to but not yet receiving benefits | 0 | 0 |
| Active employees | 132 | 132 |
| Total membership | 187 | 187 |
| Discount Rate at Measurement Date | | |
| Municipal Bond Index Rate | 4.13% | 4.09% |
| Long-term Expected Asset Return | 6.00% | 5.00% |
| Year in which Fiduciary Net Position is projected to be depleted | N/A | N/A |
| Single Equivalent Discount Rate (SEDR) | 4.85% | 4.32% |
| Net OPEB Liability as of Measurement Date | | |
| Total OPEB Liability (TOL) | \$ 17,803,020 | \$ 19,376,308 |
| Fiduciary Net Position (FNP) | (2,351,627) | (2,023,212) |
| Net OPEB Liability (NOL = TOL – FNP) | \$ 15,451,393 | \$ 17,353,096 |
| Funded Status (FNP / TOL) | 13.2% | 10.4% |

| Fiscal Years | 2022/23 | 2021/22 |
|---|---------------------|---------------------|
| Valuation Date (VD) | June 30, 2022 | June 30, 2022 |
| Measurement Date (MD) | June 30, 2023 | June 30, 2022 |
| OPEB Expense / (Income) by Fiscal Year | \$ 696,665 | \$ 986,819 |
| Balance of unamortized Deferred Inflows at MD | \$ (5,484,900) | \$ (5,151,770) |
| Balance of unamortized Deferred Outflows at MD | \$ 1,732,010 | \$ 2,864,906 |
| Actuarially Determined Contribution by Fiscal Year¹ | \$ 1,944,405 | \$ 1,696,125 |

¹ Actuarially Determined Contribution (ADC) for FY 2021/22 is as shown in the Town of Portsmouth GASB 74/75 Actuarial Valuation for the fiscal year ending June 30, 2021 report prepared by Nyhart dated 3/22/2022. ADC for FY 2022/23 is as shown in the Town of Portsmouth GASB 74/75 Disclosures for fiscal year ending June 30, 2022.

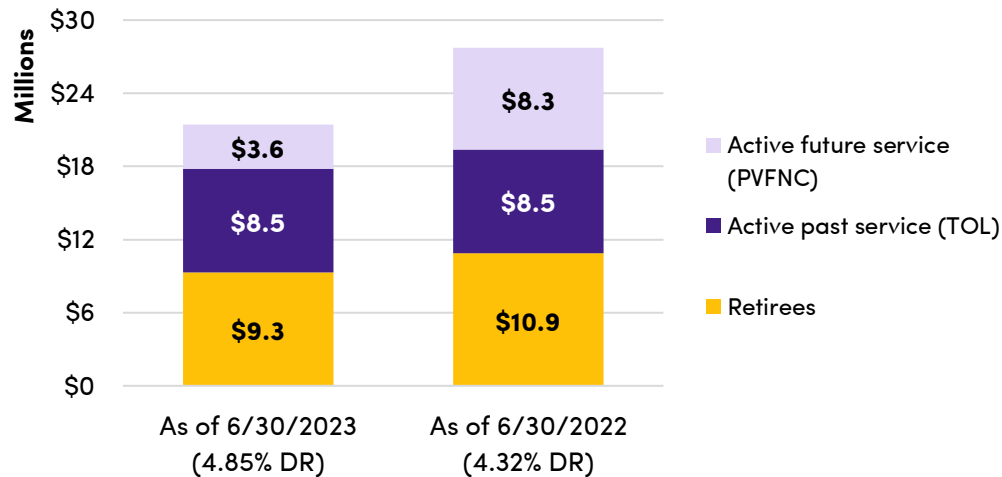
Below is a breakdown of the OPEB liability allocated to past and current service as of the Measurement Date compared to the prior Measurement Date. The liability below includes explicit subsidy (if any) and implicit subsidy. Refer to the Substantive Plan Provisions section for complete information on the Town benefit provisions.

| Present Value of Future Benefits (PVFB) | As of June 30, 2023 | As of June 30, 2022 |
|---|----------------------|----------------------|
| Active employees | \$ 12,163,014 | \$ 16,850,848 |
| Retired employees | 9,288,928 | 10,867,074 |
| Total PVFB | \$ 21,451,942 | \$ 27,717,922 |

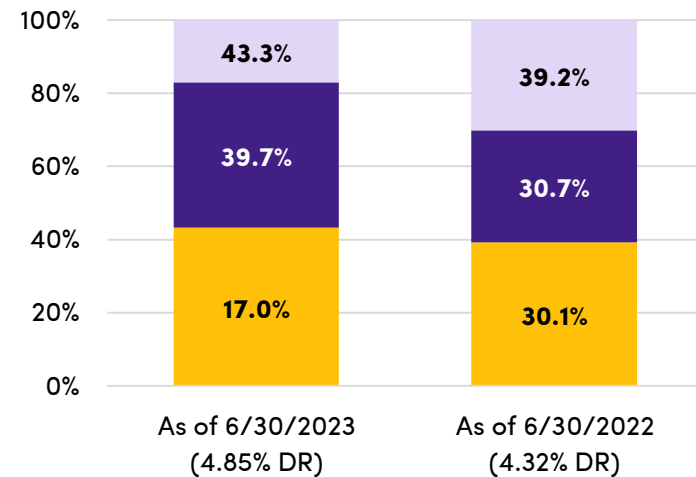
| Total OPEB Liability (TOL) | As of June 30, 2023 | As of June 30, 2022 |
|----------------------------|----------------------|----------------------|
| Active employees | \$ 8,514,092 | \$ 8,509,234 |
| Retired employees | 9,288,928 | 10,867,074 |
| Total TOL | \$ 17,803,020 | \$ 19,376,308 |

| | As of June 30, 2023 | As of June 30, 2022 |
|---------------|---------------------|---------------------|
| Discount Rate | 4.85% | 4.32% |

OPEB Liability Breakdown (\$)



OPEB Liability Breakdown (%)



Section 2: Financial Disclosures

This section provides the necessary accounting disclosures for the Town’s financial reports as shown in the following tables:

- Table 1: Plan Demographics
- Table 2: Brief Summary of Assumptions
- Table 3: OPEB Expense
- Table 4: Net OPEB Liability Sensitivity (Discount Rate)
- Table 5: Net OPEB Liability Sensitivity (Healthcare Trend Rates)
- Table 6: Historical Deferred Inflows and Outflows
- Table 7: Unamortized Balance of Deferred Inflows and Outflows
- Table 8: Schedule of Future Amortization of Deferred Inflows and Outflows

Summary of Membership and Assumptions

The table below shows the number of employees covered by the benefit terms as of June 30, 2022.

Table 1 - Plan Demographics

| | |
|--|-----|
| Inactive employees or beneficiaries currently receiving benefits | 55 |
| Inactive employees entitled to but not yet receiving benefits | 0 |
| Active employees | 132 |
| Total membership | 187 |

The Total OPEB Liability (TOL) as of June 30, 2022 was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. For a complete list of assumptions, refer to Section 7.

Table 2 - Brief Summary of Assumptions

| | |
|---------------------------|---|
| Inflation | 2.50% |
| Payroll growth | 3.50%, which is based on the salary increase assumption from the Town of Portsmouth pension actuarial valuation as of July 1, 2020 |
| Investment rate of return | 6.00% |
| Discount rate | 4.85% ² |
| Medical/Rx trend rates | Based on 2022 Getzen with that reflects actual premium increase of 0.5% from 2022 to 2023 followed by 6.50% in 2023 that decreases gradually to an ultimate rate of 3.94% in 2075 |
| Dental/Vision trend rates | -3.00% from 2022 to 2023 then 3.50% for all years for dental and 2.50% for all years for vision |

² The Trust is expected to be able to pay for the retiree health benefit expenses before becoming depleted by the year ending 2042 based on the funding policy that the Town makes annual OPEB Trust contribution of \$25,000 and pay for the retiree health benefit expenses from the Town’s general assets.

OPEB Expense

The table below shows a comparison of the OPEB Expense recognized by the Town for the current and prior fiscal years.

Table 3 - OPEB Expense

| Fiscal Years | 2022/23 | 2021/22 |
|--|--------------|--------------|
| SEDR as of beginning of year | 4.32% | 2.50% |
| SEDR as of end of year | 4.85% | 4.32% |
| Service Cost | \$ 766,605 | \$ 1,023,437 |
| Interest on TOL and Service Cost | 847,601 | 582,433 |
| Changes of benefit terms | (61,671) | 0 |
| Projected earnings on OPEB Plan investments | (103,839) | (112,940) |
| OPEB Plan administrative expenses net of all revenues | 27,675 | (22,769) |
| Current period recognition of Deferred Inflows / Outflows of Resources | | |
| Difference between expected and actual experience in the TOL | \$ (546,815) | \$ (379,572) |
| Changes of assumptions or other inputs | (154,409) | (25,992) |
| Net difference between the projected and actual earnings on OPEB Plan investments | (18,468) | (2,733) |
| Other | 0 | 0 |
| Total current period recognition | \$ (719,692) | \$ (408,297) |
| OPEB Expense | \$ 696,665 | \$ 986,819 |

Schedule of Changes in Net OPEB Liability

| Measurement Period Ending June 30 | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|--------------------------|-----------------------|----------------------|----------------------|----------------------|
| Total OPEB Liability (TOL) | | | | | |
| Service Cost | \$ 766,605 | \$ 1,023,437 | \$ 789,052 | \$ 685,689 | \$ 782,916 |
| Interest on TOL and Service Cost | 847,601 | 582,433 | 597,862 | 740,008 | 807,833 |
| Changes of benefit terms | (61,671) | 0 | 0 | 0 | 0 |
| Difference between expected & actual experience | (1,170,682) | (1,057,241) | 477,405 | (1,273,550) | (966,904) |
| Changes of assumptions or other inputs | (898,915) | (2,850,557) | 1,954,574 | 1,517,261 | 35,933 |
| Benefit payments | (1,056,226) ³ | (1,184,022) | (998,793) | (1,027,477) | (1,034,008) |
| Net change in TOL | \$ (1,573,288) | \$ (3,485,950) | \$ 2,820,100 | \$ 641,931 | \$ (374,230) |
| TOL – beginning | \$ 19,376,308 | \$ 22,862,258 | \$ 20,042,158 | \$ 19,400,227 | \$ 19,774,457 |
| TOL – ending | \$ 17,803,020 | \$ 19,376,308 | \$ 22,862,258 | \$ 20,042,158 | \$ 19,400,227 |
| Plan Fiduciary Net Position (FNP) | | | | | |
| Contributions – employer | \$ 1,081,226 | \$ 1,199,269 | \$ 1,128,104 | \$ 1,052,477 | \$ 1,059,008 |
| Contributions – employees | 60,014 | 75,045 | 61,988 | 58,601 | 53,312 |
| Other adjustments | 25,558 | (25,000) | 0 | 0 | 0 |
| Benefit payments | (1,056,226) | (1,184,022) | (998,793) | (1,027,477) | (1,034,008) |
| Net investment income | 219,960 | (255,146) | 426,595 | 65,540 | 85,681 |
| Trust administrative expenses | (2,117) | (2,231) | (6,739) | (5,000) | (14,515) |
| Net change in Plan FNP | \$ 328,415 | \$ (192,085) | \$ 611,155 | \$ 144,141 | \$ 149,478 |
| FNP – beginning | \$ 2,023,212 | \$ 2,215,297 | \$ 1,604,142 | \$ 1,460,001 | \$ 1,310,523 |
| FNP – ending | \$ 2,351,627 | \$ 2,023,212 | \$ 2,215,297 | \$ 1,604,142 | \$ 1,460,001 |
| Net OPEB Liability – ending | \$ 15,451,393 | \$ 17,353,096 | \$ 20,646,961 | \$ 18,438,016 | \$ 17,940,226 |
| FNP as % of TOL | 13.2% | 10.4% | 9.7% | 8.0% | 7.5% |
| Covered-employee payroll – measurement period | \$ 9,771,419 | \$ 9,427,054 | \$ 8,987,551 | \$ 7,902,464 | \$ 7,635,231 |
| NOL as % of covered payroll | 158.1% | 184.1% | 229.7% | 233.3% | 235.0% |

³ Based on explicit benefit payment of \$913,931 and estimated implicit subsidy payment of \$142,295.

Schedule of Changes in Net OPEB Liability (Continued)

| Measurement Period Ending June 30 | 2018 | 2017 |
|---|-----------------------|----------------------|
| Total OPEB Liability (TOL) | | |
| Service Cost | \$ 887,744 | \$ 826,446 |
| Interest on TOL and Service Cost | 825,756 | 564,081 |
| Changes of benefit terms | (8,005) | 0 |
| Difference between expected & actual experience | (2,179,438) | 2,651,611 |
| Changes of assumptions or other inputs | (607,184) | (335,511) |
| Benefit payments | (1,019,210) | (890,092) |
| Net change in TOL | \$ (2,100,337) | \$ 2,816,535 |
| TOL – beginning | \$ 21,874,794 | \$ 19,058,259 |
| TOL – ending | \$ 19,774,457 | \$ 21,874,794 |
| Plan Fiduciary Net Position (FNP) | | |
| Contributions – employer | \$ 1,069,210 | \$ 1,169,270 |
| Contributions – employees | 53,958 | 55,310 |
| Other adjustments | 0 | 0 |
| Benefit payments | (1,019,210) | (890,092) |
| Net investment income | 101,350 | 90,454 |
| Trust administrative expenses | (10,486) | (458) |
| Net change in Plan FNP | \$ 194,822 | \$ 424,484 |
| FNP – beginning | \$ 1,115,701 | \$ 691,217 |
| FNP – ending | \$ 1,310,523 | \$ 1,115,701 |
| Net OPEB Liability – ending | \$ 18,463,934 | \$ 20,759,093 |
| FNP as % of TOL | 6.6% | 5.1% |
| Covered-employee payroll – measurement period | \$ 7,441,122 | \$ 7,189,490 |
| NOL as % of covered payroll | 248.1% | 288.7% |

Schedule of Employer Contribution

| Fiscal Year Ending | 2023 | 2022 | 2021 | 2020 | 2019 |
|--|--------------|--------------|--------------|--------------|--------------|
| Actuarially Determined Contribution (ADC) | \$ 1,944,405 | \$ 1,696,125 | \$ 1,522,495 | \$ 1,586,153 | \$ 1,695,662 |
| Contributions in relation to the ADC | \$ 1,081,226 | \$ 1,199,269 | \$ 1,128,104 | \$ 1,052,477 | \$ 1,059,008 |
| Contribution deficiency / (excess) | \$ 863,179 | \$ 496,856 | \$ 394,391 | \$ 533,676 | \$ 636,654 |
| Covered-employee payroll – employer fiscal year | \$ 9,771,419 | \$ 9,427,054 | \$ 8,987,551 | \$ 7,902,464 | \$ 7,635,231 |
| Contributions as a % of covered-employee payroll | 11.1% | 12.7% | 12.6% | 13.3% | 13.9% |

| Fiscal Year Ending | 2018 | 2017 |
|--|--------------|--------------|
| Actuarially Determined Contribution (ADC) | \$ 1,629,782 | \$ 1,739,943 |
| Contributions in relation to the ADC | \$ 1,069,210 | \$ 1,169,270 |
| Contribution deficiency / (excess) | \$ 560,572 | \$ 570,673 |
| Covered-employee payroll – employer fiscal year | \$ 7,441,122 | \$ 7,189,490 |
| Contributions as a % of covered-employee payroll | 14.4% | 16.3% |

Net OPEB Liability Sensitivity

The following presents the Net OPEB Liability of the Town, as well as what the Town’s Net OPEB Liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate as of June 30, 2023.

Table 4 - Net OPEB Liability Sensitivity (Discount Rate)

| | 1% Decrease (3.85%) | Discount Rate (4.85%) | 1% Increase (5.85%) |
|------------------------------|--------------------------------|----------------------------------|--------------------------------|
| Net OPEB Liability / (Asset) | \$ 17,202,862 | \$ 15,451,393 | \$ 13,918,192 |

The following presents the Net OPEB Liability of the Town, as well as what the Town’s Net OPEB Liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates as of June 30, 2023.

Table 5 - Net OPEB Liability Sensitivity (Healthcare Trend Rates)

| | 1% Decrease | Healthcare Trend Rates⁴ | 1% Increase |
|------------------------------|--------------------|---|--------------------|
| Net OPEB Liability / (Asset) | \$ 13,609,190 | \$ 15,451,393 | \$ 17,617,965 |

⁴ Comparison of Baseline, 1% Decrease, and 1% Increase in healthcare trend rates assumptions are as shown below.

| 1% Decrease | Baseline | 1% Increase |
|--|---|---|
| Actual premium increase of -0.5% from 2022 to 2023 followed by 5.50% decreasing to 2.94% ultimate rate in 2075 | Actual premium increase of 0.5% from 2022 to 2023 followed by 6.50% decreasing to 3.94% ultimate rate in 2075 | Actual premium increase of 1.5% from 2022 to 2023 followed by 7.50% decreasing to 4.94% ultimate rate in 2075 |

Deferred Inflows and Deferred Outflows of Resources Related to OPEB

The tables below show changes in the Net OPEB Liability that have not been included in the OPEB expense for the following items:

1. Differences between expected and actual experience of the OPEB plan
2. Changes in assumptions
3. Differences between projected and actual earnings on the OPEB plan investments

The initial amortization base for the first two items above are amortized linearly over the average expected remaining service lives of active and inactive employees. The difference between projected and actual earnings on the OPEB plan investments is amortized linearly over five years.

Table 6 - Historical Deferred Inflows and Outflows

Differences between expected and actual experience

| Measurement Period Ending | Fiscal Year Ending | Initial Balance | Initial Amortization Period | Annual Recognition | Recognized in OPEB Expense through June 30, 2023 | Unamortized Balance as of June 30, 2023 |
|---------------------------|--------------------|-----------------|-----------------------------|--------------------|--|---|
| 6/30/2017 | 6/30/2017 | \$ 2,651,611 | 7.00 | \$ 378,799 | \$ 2,651,611 | \$ 0 |
| 6/30/2018 | 6/30/2018 | \$ (2,179,438) | 7.00 | \$ (311,348) | \$ (1,868,088) | \$ (311,350) |
| 6/30/2019 | 6/30/2019 | \$ (966,904) | 7.00 | \$ (138,129) | \$ (690,645) | \$ (276,259) |
| 6/30/2020 | 6/30/2020 | \$ (1,273,550) | 6.00 | \$ (212,258) | \$ (849,032) | \$ (424,518) |
| 6/30/2021 | 6/30/2021 | \$ 477,405 | 6.00 | \$ 79,568 | \$ 238,704 | \$ 238,701 |
| 6/30/2022 | 6/30/2022 | \$ (1,057,241) | 6.00 | \$ (176,207) | \$ (352,414) | \$ (704,827) |
| 6/30/2023 | 6/30/2023 | \$ (1,170,682) | 7.00 | \$ (167,240) | \$ (167,240) | \$ (1,003,442) |

Changes in assumptions or other inputs

| Measurement Period Ending | Fiscal Year Ending | Initial Balance | Initial Amortization Period | Annual Recognition | Recognized in OPEB Expense through June 30, 2023 | Unamortized Balance as of June 30, 2023 |
|---------------------------|--------------------|-----------------|-----------------------------|--------------------|--|---|
| 6/30/2017 | 6/30/2017 | \$ (335,511) | 7.00 | \$ (47,931) | \$ (335,511) | \$ 0 |
| 6/30/2018 | 6/30/2018 | \$ (607,184) | 7.00 | \$ (86,741) | \$ (520,446) | \$ (86,738) |
| 6/30/2019 | 6/30/2019 | \$ 35,933 | 7.00 | \$ 5,133 | \$ 25,665 | \$ 10,268 |
| 6/30/2020 | 6/30/2020 | \$ 1,517,261 | 6.00 | \$ 252,877 | \$ 1,011,508 | \$ 505,753 |
| 6/30/2021 | 6/30/2021 | \$ 1,954,574 | 6.00 | \$ 325,762 | \$ 977,286 | \$ 977,288 |
| 6/30/2022 | 6/30/2022 | \$ (2,850,557) | 6.00 | \$ (475,093) | \$ (950,186) | \$ (1,900,371) |
| 6/30/2023 | 6/30/2023 | \$ (898,915) | 7.00 | \$ (128,416) | \$ (128,416) | \$ (770,499) |

Differences between projected and actual earnings on OPEB plan investments⁵

| Measurement Period Ending | Fiscal Year Ending | Initial Balance | Initial Amortization Period | Annual Recognition | Recognized in OPEB Expense through June 30, 2023 | Unamortized Balance as of June 30, 2023 |
|---------------------------|--------------------|-----------------|-----------------------------|--------------------|--|---|
| 6/30/2019 | 6/30/2019 | \$ (11,871) | 5.00 | \$ (2,375) | \$ (11,871) | \$ 0 |
| 6/30/2020 | 6/30/2020 | \$ 9,401 | 5.00 | \$ 1,880 | \$ 7,520 | \$ 1,881 |
| 6/30/2021 | 6/30/2021 | \$ (341,830) | 5.00 | \$ (68,366) | \$ (205,098) | \$ (136,732) |
| 6/30/2022 | 6/30/2022 | \$ 393,086 | 5.00 | \$ 78,617 | \$ 157,234 | \$ 235,852 |
| 6/30/2023 | 6/30/2023 | \$ (116,121) | 5.00 | \$ (23,224) | \$ (23,224) | \$ (92,897) |

⁵ Only amortization bases that are not fully recognized by fiscal year ending June 30, 2023 are shown in this table.

The table below shows the unamortized balance of Deferred Inflows and Outflows of Resources as of June 30, 2023 for financial statement disclosure for the fiscal year ending June 30, 2023.

Table 7 - Unamortized Balance of Deferred Inflows and Outflows

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------|-------------------------------|
| Differences between expected and actual experience | \$ 238,701 | \$ (2,720,396) |
| Changes in assumptions or other inputs | 1,493,309 | (2,757,608) |
| Net difference between projected and actual earnings on OPEB plan investments | 0 | (6,896) |
| Employer contribution subsequent to the Measurement Date | 0 | 0 |
| Total | \$ 1,732,010 | \$ (5,484,900) |

Schedule of future annual amortizations of Deferred Inflows and Outflows that will be recognized in future OPEB expense is as shown below.

Table 8 - Schedule of Future Deferred Inflows and Outflows Amortization

| Measurement Period Ending | Amounts |
|---------------------------|----------------|
| 2024 | \$ (1,048,183) |
| 2025 | \$ (651,978) |
| 2026 | \$ (491,233) |
| 2027 | \$ (970,179) |
| 2028 | \$ (295,656) |
| Thereafter | \$ (295,661) |

Section 3: Asset Information

Funding Policy

The Town has an OPEB Trust that is invested in Mission Square Retirement under Mission Square II Model Portfolio Moderate Fund, which is a qualified irrevocable trust. The Town intends to make annual OPEB Trust contribution of \$25,000 and pay for the retiree health benefit expenses from the Town's general assets.

Asset Breakdown

| As of | June 30, 2023 | June 30, 2022 |
|--|---------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$ 0 | \$ 0 |
| Receivables | 0 | 0 |
| Investments | | |
| Fixed income | \$ 698,668 | \$ 733,010 |
| Equities | 1,576,531 | 1,224,448 |
| Treasury Inflation-Protected Securities (TIPS) | 76,428 | 65,754 |
| Real assets | 0 | 0 |
| Total investments | <u>\$ 2,351,627</u> | <u>\$ 2,023,212</u> |
| Total assets | \$ 2,351,627 | \$ 2,023,212 |
| Liabilities | | |
| Accounts payable | \$ 0 | \$ 0 |
| Total liabilities | <u>\$ 0</u> | <u>\$ 0</u> |
| Net asset available for benefits | \$ 2,351,627 | \$ 2,023,212 |

Reconciliation of Asset

| Measurement Periods | 2022/23 | 2021/22 |
|--|----------------|----------------|
| Additions | | |
| Contributions received | | |
| Employer | \$ 1,081,226 | \$ 1,199,269 |
| Employees | 60,014 | 75,045 |
| Total contributions | \$ 1,141,240 | \$ 1,274,314 |
| Investment income | | |
| Interest and dividend | \$ 0 | \$ 0 |
| Net increase/(decrease) in fair value of investments | 219,960 | (255,146) |
| Other adjustments ⁶ | 25,558 | (25,000) |
| Accrued income | 0 | 0 |
| Investment expense | 0 | 0 |
| Net investment income | \$ 245,518 | \$ (280,146) |
| Total additions | \$ 1,386,758 | \$ 994,168 |
| Deductions | | |
| Benefit payments net of retiree contributions | \$ (1,056,226) | \$ (1,184,022) |
| Administrative expenses | (2,117) | (2,231) |
| Total deductions | \$ (1,058,343) | \$ (1,186,253) |
| Change in net position | \$ 328,415 | \$ (192,085) |
| Net position – beginning of year | \$ 2,023,212 | \$ 2,215,297 |
| Net position – end of year | \$ 2,351,627 | \$ 2,023,212 |

⁶ Other adjustment in FY 2022/23 is made up of \$18,837 in health pool rebates from the RI interlocal Trust and \$6,722 difference in employee contributions between the Trust's ledger and asset statement. Other adjustment in FY 2021/22 was for Trust contribution that was not in the Town's record but appeared in the FY 2021/22 Trust statement.

Section 4: Actuarially Determined Contribution

Actuarially Determined Contribution (ADC) is the recommended contribution that, if paid on an ongoing basis, is expected to provide sufficient resources to fund (a) future normal cost (cost for new service) and (b) the amortized unfunded liabilities (cost for past service). There is no requirement to fund OPEB benefit under GASB 74/75 and it is up to the Plan Sponsor's discretion to determine the OPEB contributions based on their fiscal situation.

| Contribution Years | FY 2022/23 ⁷ | FY 2023/24 | FY 2024/25 |
|--|-------------------------|---------------|---------------|
| Funding discount rate | 5.00% | 6.00% | 6.00% |
| Amortization method | Level Dollar | Level Dollar | Level Dollar |
| Payroll growth | N/A | N/A | N/A |
| Amortization period | 20 years | 19 years | 18 years |
| Actuarial Accrued Liability (AAL) – beginning of year ⁸ | \$ 18,187,587 | \$ 16,056,688 | \$ 16,510,556 |
| Actuarial Value of Assets (AVA) – beginning of year ⁹ | (2,023,212) | (2,351,627) | (2,578,442) |
| Unfunded AAL (UAAL) – beginning of year | \$ 16,164,375 | \$ 13,705,061 | \$ 13,932,114 |
| Normal Cost – beginning of year | \$ 667,495 | \$ 535,469 | \$ 556,566 |
| Reduction for active employees' contribution | (60,621) | (60,608) | (64,469) |
| Amortization of UAAL – beginning of year | 1,235,306 | 1,158,735 | 1,213,889 |
| Total Normal Cost and amortization of UAAL | \$ 1,842,180 | \$ 1,633,596 | \$ 1,705,986 |
| Interest adjustment for end of year payment | 92,109 | 98,016 | 102,359 |
| Administrative expenses | 10,116 | 2,352 | 2,578 |
| Actuarially Determined Contribution (ADC) | \$ 1,944,405 | \$ 1,733,964 | \$ 1,810,923 |
| Expected benefit payments ¹⁰ | \$ 1,056,226 | \$ 1,025,959 | \$ 1,080,233 |

⁷ ADC for FY 2022/23 contribution year is as shown in the Town of Portsmouth GASB 74/75 Disclosures for fiscal year ending June 30, 2022.

⁸ Fiscal year 2022/23 AAL as of beginning of year is based on June 30, 2022 OPEB valuation results. Fiscal years 2023/24 and 2024/25 AALs as of beginning of year are based on June 30, 2022 OPEB valuation results that reflect actual premium changes through 2023 and 6.00% discount rate, projected to June 30, 2023 and 2024, respectively on a "no gain/loss" basis.

⁹ Fiscal years 2022/23 and 2023/24 AVAs as of beginning of year are based on June 30, 2022 and June 30, 2023 market value of assets, respectively. Fiscal year 2024/25 AVA as of beginning of year is projected from June 30, 2023 market value of asset assuming 6.00% investment income, Town contribution equals to the benefit payment plus \$25,000 pre-funding contribution (total contribution of \$1,141,834), active employee contribution of \$60,608, and 0.10% Trust investment expense applied to beginning of year asset balance.

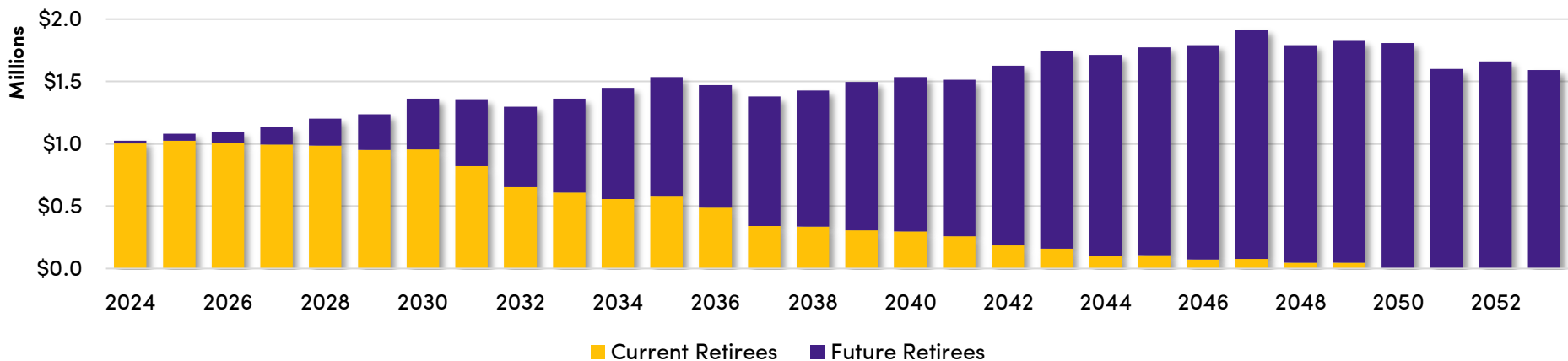
¹⁰ Actual benefit payment is shown for FY 2022/23.

Section 5: Projected Benefit Payments

The below table shows the projected benefit payments for the next 30 years for a closed group of participants (both active employees and existing retirees) who are included in the census data as of June 30, 2022. This exhibit is provided for informational purposes only and is not a required disclosure under GASB 74/75. Projected benefit payments below include both explicit (if any) and implicit subsidies (as applicable).

| FYE | Future Retirees | Current Retirees | Total | FYE | Future Retirees | Current Retirees | Total | FYE | Future Retirees | Current Retirees | Total |
|------|-----------------|------------------|--------------|------|-----------------|------------------|--------------|------|-----------------|------------------|--------------|
| 2024 | \$ 21,284 | \$ 1,004,675 | \$ 1,025,959 | 2034 | \$ 892,059 | \$ 557,959 | \$ 1,450,018 | 2044 | \$ 1,616,087 | \$ 97,557 | \$ 1,713,644 |
| 2025 | \$ 54,190 | \$ 1,026,043 | \$ 1,080,233 | 2035 | \$ 954,729 | \$ 582,150 | \$ 1,536,879 | 2045 | \$ 1,666,173 | \$ 105,295 | \$ 1,771,468 |
| 2026 | \$ 87,540 | \$ 1,005,876 | \$ 1,093,416 | 2036 | \$ 980,030 | \$ 489,678 | \$ 1,469,708 | 2046 | \$ 1,721,380 | \$ 70,331 | \$ 1,791,711 |
| 2027 | \$ 138,435 | \$ 995,315 | \$ 1,133,750 | 2037 | \$ 1,038,413 | \$ 340,332 | \$ 1,378,745 | 2047 | \$ 1,838,730 | \$ 75,782 | \$ 1,914,512 |
| 2028 | \$ 217,826 | \$ 985,412 | \$ 1,203,238 | 2038 | \$ 1,090,252 | \$ 337,415 | \$ 1,427,667 | 2048 | \$ 1,746,582 | \$ 44,434 | \$ 1,791,016 |
| 2029 | \$ 286,384 | \$ 950,543 | \$ 1,236,927 | 2039 | \$ 1,192,325 | \$ 305,340 | \$ 1,497,665 | 2049 | \$ 1,777,825 | \$ 48,067 | \$ 1,825,892 |
| 2030 | \$ 408,056 | \$ 954,381 | \$ 1,362,437 | 2040 | \$ 1,238,885 | \$ 297,454 | \$ 1,536,339 | 2050 | \$ 1,808,493 | \$ 0 | \$ 1,808,493 |
| 2031 | \$ 537,631 | \$ 819,299 | \$ 1,356,930 | 2041 | \$ 1,254,182 | \$ 259,181 | \$ 1,513,363 | 2051 | \$ 1,600,854 | \$ 0 | \$ 1,600,854 |
| 2032 | \$ 644,995 | \$ 652,406 | \$ 1,297,401 | 2042 | \$ 1,442,491 | \$ 185,389 | \$ 1,627,880 | 2052 | \$ 1,659,745 | \$ 0 | \$ 1,659,745 |
| 2033 | \$ 754,351 | \$ 608,235 | \$ 1,362,586 | 2043 | \$ 1,581,903 | \$ 160,610 | \$ 1,742,513 | 2053 | \$ 1,593,666 | \$ 0 | \$ 1,593,666 |

Projected Benefit Payments



Section 6: Substantive Plan Provisions

Changes Since Prior Valuation

New labor contracts effective on July 1, 2022 for Fire and PMEA bargaining units include the following benefit changes that are reflected in this roll-forward report. The net impact of these changes is a slight decrease in the liability.

1. Firefighters:
 - a. Active firefighters' contribution to the OPEB Trust is reduced from 1.5% to 1.0% of base earnings.
 - b. For firefighters enrolled in the HDHP plan who retire on/after July 1, 2022, the Town will make annual HSA contribution of \$800 (single) / \$1,600 (family) for the first ten years in retirement.
2. PMEA: Town subsidy for retiree health coverage (medical, dental, and vision) for employees hired prior to July 1, 2013 who retire on/after July 1, 2022 is reduced from 85% to 80%.

Additionally, the following changes were applied to the annual employer subsidy for vision benefits:

1. Firefighters: \$200 per family¹¹
2. Police: \$150 per eligible employee or dependent
3. PMEA: \$250 per family

For complete description of substantive plan provisions, refer to the Town of Portsmouth GASB 74/75 Disclosures for fiscal year ending June 30, 2022 report. Roll-forward valuation results shown in this report have been projected from the prior year's valuation, with adjustments for actual premium and contribution changes since the prior year.

¹¹ The above vision policy applies to firefighters who retire on/after 7/1/2016. Different and varying vision reimbursement policies apply to firefighters who retire prior to 7/1/2016.

Medical Benefits

Same benefit options are available to pre-Medicare retirees as active employees. The Town and School are in a collaborative pool with more than 30 entities in Rhode Island. All health plans are fully-insured and experience-rated. Each entity in the collaborative pool is viewed individually. Depending on its size, the entity's experience is blended with the community pool (the community used is all the municipal accounts in Rhode Island, not just the collaborative pool that they are a part of). In the case of Portsmouth (both Town and School), their final rates are based on 80% of their own experience and 20% of the community average. There is no asset used to suppress premium rate increases. Premium rates are calculated to fund the expected costs (including claims and administrative costs).

The monthly premium rates (excluding BCBS WRI) effective on July 1, 2022 used in last year's valuation are as shown below. This roll-forward report reflects actual premium changes through 2023. Monthly premium rates (excluding BCBS WRI) effective on July 1, 2023 used to determine the trend adjustments are also shown below.

| Plans | Groups | Eff. July 1, 2022 | | Eff. July 1, 2023 | |
|--------------|---|-------------------|-------------|-------------------|-------------|
| | | Single | Family | Single | Family |
| HM 0007 Ded | PMEA & NUG (active & retired post 7/2013) | | | | |
| HM 0002 Ded | DPW (active & retired post 7/2014) | \$ 712.27 | \$ 1,839.61 | \$ 716.07 | \$ 1,842.43 |
| HM 0009 Ded | Retired Police (post 4/2014) | | | | |
| HM 0001 | Retired Fire (post 4/2008 but pre 7/2010) | \$ 752.35 | \$ 1,943.19 | \$ 756.37 | \$ 1,953.56 |
| HM 0002 | Retired DPW (pre 7/2014) | | | | |
| HM 0004 | Retired Fire (pre 4/2008) | \$ 780.42 | \$ 2,015.64 | \$ 784.59 | \$ 2,026.40 |
| HM 0009 | Retired Police (pre 4/2014) | | | | |
| HM 0005 HDHP | Fire (active) | \$ 601.51 | \$ 1,435.13 | \$ 604.64 | \$ 1,442.71 |
| HM 0006 HDHP | Retired Fire (post 7/2010) Civilian Fire Dispatchers | \$ 526.66 | \$ 1,360.28 | \$ 526.66 | \$ 1,360.28 |
| Classic 0007 | Retired NUG (pre 7/2014) | \$ 902.38 | \$ 2,319.30 | \$ 907.20 | \$ 2,331.68 |
| Classic 0009 | Retired Police (pre 4/2014) | \$ 1,037.05 | \$ 2,738.00 | \$ 1,042.59 | \$ 2,752.62 |
| HM 0007 | Retired PMEA (pre 7/2013) | \$ 752.59 | \$ 1,943.75 | \$ 756.37 | \$ 1,953.56 |
| HM 0008 Ded | Police (active) | \$ 759.93 | \$ 1,887.27 | \$ 763.93 | \$ 1,897.29 |

Section 7: Brief Summary of Actuarial Methods and Assumptions

Changes Since Prior Valuation

All actuarial methods and assumptions used in this year's roll-forward report are the same as those used in the Town of Portsmouth GASB 74/75 Disclosures for fiscal year ending June 30, 2022, except as noted below. Refer to the Town of Portsmouth GASB 74/75 Disclosures for fiscal year ending June 30, 2022 for complete description of actuarial methods and assumptions.

Actuary's Notes

The following assumptions have been updated since the prior valuation:

1. The Single Equivalent Discount Rate (SEDR) has been increased from 4.32% as of June 30, 2022 to 4.85% as of June 30, 2023 which caused a decrease in the liability. This change is based on updated cross-over test where the Trust is expected to be depleted by the year ending 2042 (2037 in the June 30, 2022 valuation), municipal bond index, and expected long-term rate of return of the Trust. The cross-over test assumes that the long-term expected rate of return of the Trust is 6.00% (5.00% in the June 30, 2022 valuation) and the Town will pay for retiree health benefit expenses from the Town's general assets and make an additional \$25,000 pre-funding contributions in perpetuity.
2. Initial health care trend rates have been updated to reflect actual premium increase of 0.5% from 2022 to 2023, which caused a decrease in the liability.

Valuation Date

June 30, 2022

Measurement Date

June 30, 2023

Reporting Period

Fiscal year ending June 30, 2023

Discount Rate

For accounting disclosure: 4.85% as of June 30, 2023 and 4.32% as of June 30, 2022

For funding purposes (in calculating the Actuarially Determined Contribution): 6.00% for FY 2023/24 and 2024/25 contributions, and 5.00% for FY 2022/23 contribution

Refer to the Discussion of Discount Rate section for additional information on the discount rate setting.

Actuarial Cost Method

Entry Age Normal Level % of Pay; a method that allocates the actuarial present value of the projected benefits of each individual on a level basis over the earnings of the individual between entry age and assumed exit age(s).

- The portion allocated to a valuation year is called the Normal Cost.
- The portion allocated to past periods is called the Actuarial Accrued Liability or Total OPEB Liability

Trend Rates

Historically, health care costs have increased more rapidly than the rate of inflation. In estimating the value of retiree health benefits, assumptions must be made on future increases in healthcare costs. The health care trend rates assumption used in this valuation is based on the Getzen Model of Long-Run Medical Cost Trends, which was first designed by T.E. Getzen for the Society of Actuaries (SOA) in 2007. The model is designed to make long-run forecasts and typically used to select medical trend assumptions for retiree medical valuations to present liabilities disclosed under the appropriate accounting standards, or to determine contributions under a funding policy. The long-run baseline projection and input variables were developed under the guidance of the SOA Project Oversight Group. The model is updated annually along with updated documentation and recommended input variables by the author of the model. The baseline assumptions used in the Getzen model are as shown in the table below.

| | |
|---|-------|
| Inflation Rate | 2.5% |
| Real GDP Per Capita Growth | 1.4% |
| Excess Medical Cost Growth | 1.0% |
| Health Share of GDP Resistance Point | 25.0% |
| Year for Limiting Cost Growth to GDP Growth | 2075 |

The output of the Getzen Model of Long-Run Medical Cost Trend Model used in the valuation is as shown below.

| Year | Medical/Rx | Year | Medical/Rx | Year | Medical/Rx |
|------|---------------------|------|------------|-------|------------|
| 2022 | 0.05% ¹² | 2030 | 5.01% | 2060 | 4.54% |
| 2023 | 6.50% | 2035 | 4.97% | 2070 | 4.20% |
| 2024 | 6.00% | 2040 | 4.81% | 2075+ | 3.94% |
| 2025 | 5.50% | 2050 | 4.64% | | |

Dental costs are assumed to increase by -3.00% from 2022 to 2023 followed by 3.50% for all future years. Vision costs are assumed to increase by 2.50% for all years. Buyback benefit is not assumed to increase in the future.

¹² Based on actual premium increase from 2022 to 2023.

Discussion of Discount Rates

Under GASB 74/75, the discount rate used in valuing OPEB liabilities as of the Measurement Date is a single rate that reflects:

1. The long-term expected rate of return on OPEB plan investments that are expected to be used to finance future benefit payments, to the extent that (a) they are sufficient to pay for the projected benefit payments and (b) the OPEB plan assets are expected to be invested using a strategy that will achieve that return.
2. A yield or index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale), when the conditions in (1) above are not met.

For the current year’s valuation:

1. The expected long-term real rate of return of the OPEB Trust is 6.00% as of June 30, 2023. This rate of return was determined using a building-block method in which best-estimate ranges of expected future real rates of return net of investment expense 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 rates of return by the target allocation percentage. Below are the Plan Sponsor’s expected future real rates of return by asset class.

| Asset Classes | Target Allocation | Expected L/T Real Rates of Return ¹³ |
|---------------------------------------|-------------------|---|
| US Equity Large Cap | 43.88% | 7.30% |
| US Equity Small/Mid Cap | 2.95% | 9.30% |
| International Equity | 10.18% | 5.90% |
| Emerging Market Equity | 3.03% | 8.40% |
| US Bonds ¹⁴ | 24.45% | 1.86% |
| US High Yield Bonds | 4.78% | 4.20% |
| TIPS | 3.25% | 1.30% |
| US Long-Duration Treasuries | 0.48% | 0.70% |
| Diversifying Strategies ¹³ | 7.00% | 5.14% |
| Total | 100.00% | |

2. The municipal bond index as of the prior and current Measurement Dates are as shown below:

| Index | June 30, 2023 | June 30, 2022 |
|---|---------------|---------------|
| S&P Municipal Bond 20 Year High Grade Index | 4.13% | 4.09% |

3. The final equivalent single discount rate used for accounting disclosure is 4.85% with the expectation that the Plan Sponsor will contribute in accordance with the Funding Policy described in Section 3. Under this Funding Policy, the OPEB Trust is expected to be depleted by the year ending 2042.

The discount rate used to calculate the Actuarially Determined Contribution for recommended funding contribution is 6.00% for FY 2023/24 and 2024/25 contributions and 5.00% for FY 2022/23 contribution.

¹³ The assumed inflation rate of 2.50% is added to the weighted expected future real rate of return provided by the Plan’s investment advisor to obtain the assumed discount rate.

¹⁴ US Bonds includes US Aggregate Bonds (19.80%) and US Short Gov/Credit (4.65%). Diversifying strategies is 60% large cap and 40% US Aggregate Bonds.

| Appendix – Glossary

1. **Active Employees** – Individuals employed at the end of the reporting or measurement period, as applicable.
2. **Actuarial Cost Method** – A method to allocate the Actuarial Present Value of Future Benefits into portions attributed to past service (Total OPEB Liability) and future service (Normal Cost).
3. **Actuarial Present Value of Future Benefits** – Projected benefit payments estimated to be payable through the OPEB plan to current active and inactive employees as a result of their past service and their expected future service, discounted to reflect the expected effects of time value (present value) of money and the probabilities of payment (which is contingent on events such as death, termination, retirement, etc). In other words, this is the amount that would have been invested as of the Valuation Date so that it is sufficient to pay for benefit payments when due.
4. **Deferred Inflows** – Gains in the Total OPEB Liability and Fiduciary Net Position (for funded plan only) due to be recognized in the future.
5. **Deferred Outflows** – Losses in the Total OPEB Liability and Fiduciary Net Position (for funded plan only) due to be recognized in the future.
6. **Defined Benefit OPEB** – OPEB for which the benefits that the employee will receive at or after separation from employment are defined by the benefit terms. The OPEB may be stated as (a) a specified dollar amount; (b) an amount that is calculated
7. **Entry Age Actuarial Cost Method** – A method that allocates the actuarial present value of the projected benefits of each individual on a level basis over the earnings or service of the individual between entry age and assumed exit age(s).
 - The portion allocated to a valuation year is called the Normal Cost.
 - The portion allocated to past periods is called the Total OPEB Liability.
 - The portion allocated to future periods after the valuation date is called the Present Value of Future Normal Costs.
8. **Fiduciary Net Position** – OPEB plan assets in a secure Trust that meet the following criteria:
 - Contributions from employers to the OPEB plan and earnings on those contributions are irrevocable.
 - OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
 - OPEB Plan assets are legally protected from the creditors of employers, OPEB plan administrator, and creditors of the plan members.
9. **Funded Ratio** – The value of the asset expressed as a percentage of the Total OPEB Liability.

10. **Healthcare Cost Trend Rates** – The rates 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.
11. **Inactive Employees** – Individuals no longer employed by an employer in the OEPB plan or the beneficiaries of those individuals. Inactive employees also include individuals who have accumulated benefits under the terms of an OPEB plan but are not yet receiving benefit payments and individuals currently receiving benefits.
12. **Net OPEB Liability** – The difference between the Total OPEB Liability and the Fiduciary Net Position.
13. **Payroll Growth** – An actuarial assumption on the rate of future increase in the total coverage payroll attributable to wage inflation and productivity increase; used in the Actuarial Cost Method to determine the Total OPEB Liability.
14. **Plan Members** – Individuals covered by the terms of the OPEB plan, which would typically include employees in active service, terminated employees who have terminated service but are not yet receiving benefit payments, and retired employees who are currently receiving benefits.
15. **Other Postemployment Benefits (OPEB)** – Benefits such as death benefits, life insurance, disability, and long-term care, as well as healthcare benefits (medical, prescription drug, dental, vision, and other health-related benefits), that are paid in the period after employment and that are provided separately from a pension plan regardless of the manner in which they are provided. OPEB does not include termination benefits or termination payments for sick leave.
16. **Service Cost (Normal Cost)** – The portion of actuarial present value of projected benefit payments that are attributed to a 12-month period after a valuation date as determined by the Actuarial Cost Method.
17. **Total OPEB Liability** – The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service as of the valuation date as determined by the Actuarial Cost Method.



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