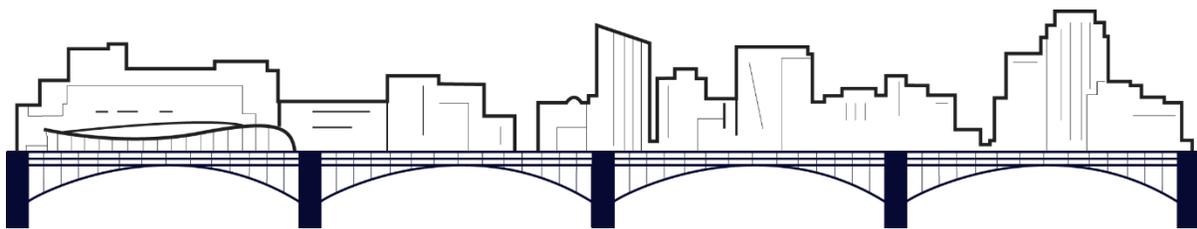


The Village of Sparta Other Post-Employment Benefits Plan

Accounting Report

for the Period Ending December 31, 2020
under GASB Statement 75



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Report presented by:



February 2021

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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 No 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 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 himself as meeting the Qualification Standards of the American Academy of Actuaries to render actuarial opinions contained in the report.

Prepared & Certified by:



Christian R. Veenstra, FCA, ASA, MAAA
Enrolled Actuary #20-05668

COMMENTS

Purpose of Governmental Accounting Standards Board (GASB) Reporting

The objective of GASB is to provide guidelines and requirements for accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). This statement establishes standards for recognizing and measuring liabilities, deferred inflows and outflows of resources and methods and assumptions that are required to be used to project benefit payments and discount those payments to their actuarial present value.

The methods and assumptions may or may not be an appropriate measure of the plan's liability for funding purposes or for reporting liabilities under Public Act 202 of the State of Michigan. Thus, liabilities and other values calculated for those purposes may differ from the ones used for GASB reporting.

State of Michigan Public Act 202

Public Act 202 (PA 202) was drafted to address the underfunded status of pension and retiree healthcare plans of local governments in Michigan. Accordingly, PA 202 included transparency and funding requirements. In addition, in order that the plans' funded status be reported on a consistent basis, Uniform Assumptions were published. While all of the Uniform Assumptions have a sound and reasonable basis, some might not be appropriate for each plan and therefore may be different than what is used for funding. Additionally, some of the assumptions may differ from what is required for reporting under GASB.

Actuarially Determined Contribution for GASB reporting

GASB reporting includes a 10-year history of actual annual amounts contributed by an employer on behalf of the OPEB plan and an Actuarially Determined Contribution (ADC). In addition, the report includes a summary of assumptions used to determine the ADC. This reporting requirement presumes a separate funding report is completed. However, for many employers, separate funding studies have not been solicited. We have included a contribution section in this report (Schedules of Required Supplementary Information: Description of Actuarially Determined Contribution) that provides this information. The assumptions and methods used for these calculations are derived from those used for GASB reporting and are not necessarily consistent with PA 202. This report includes an ADC determined using an amortization of the unfunded liability over average future service for actives for GASB reporting purposes.

Actuarially Determined Contribution under Public Act 202

Public Act 202 requires a calculation of an ADC using the Uniform Assumptions prescribed under PA 202. This ADC differs from the one used for the 10-year reporting history noted in the paragraph above. (Schedules of Required Supplementary Information: State of Michigan Public Acts 530 and 202 Information)

Changes in Actuarial Assumptions, Plan Changes and Expected Actuarial Experience

There was an overall actuarial gain (decrease in liability) of \$32,078 due primarily to four employees who are eligible to retire but have not chosen to. Updating the valuation assumptions increased the liability \$976.

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 The Village of Sparta Other Post-Employment Benefits Plan and additions to/deductions from the Village's fiduciary net position have been determined on the same basis as they are reported by the The Village of Sparta. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

The Village of Sparta Other Post-Employment Benefits Plan is a single employer plan established and administered by **The Village of Sparta** and can be amended at its discretion.

Benefits Provided

A summary of the benefits provided is available in the Plan Provisions section of the report.

Summary of Plan Participants

As of December 31, 2020, Retirement Plan membership consisted of the following:

Active members	14 ¹
Inactive members	0
Retirees and beneficiaries	0
Total members	<u>14</u>

Contributions

The The Village of Sparta Other Post-Employment Benefits Plan was established and is being funded under the authority of the Village and under agreements with unions representing various classes of employees. The plan's funding policy is to pay expected plan benefits from general operating funds – pay-as-you-go. Active participants do not make contributions to pre-fund the Plan. There are no long term contracts for contributions to the plan.

¹ Three members are at or above age 65 such that they have no liability under this plan

ASSUMPTIONS AND METHODS

The The Village of Sparta's OPEB liability was measured as of December 31, 2020.

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of December 31, 2020. The following actuarial assumptions were used in the measurement:

Inflation	None; the plan is not pre-funded
Salary increases	3.0% (for purpose of allocating liability)
Investment rate of return	None; the plan is not pre-funded
20-year Aa Municipal bond rate	1.93% (S&P Municipal Bond 20-Year High Grade Rate Index)
Mortality	2010 Public General Employees and Healthy Retirees, Headcount weighted
Improvement Scale	MP-2020

As this plan is not pre-funded, no long-term expected rate of return on Plan investments was determined.

Discount Rate

The discount rate used to measure the total OPEB liability was **1.93%**. Because the plan does not have a dedicated OPEB trust, there are not assets projected to be sufficient to make projected future benefit payments of current plan members, therefore, benefit payments are discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. As of December 31, 2019, the discount rate used to value OPEB liabilities was 3.0%.

RECONCILIATION AND RECOGNITION OF 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, 2019	\$253,111	\$-	\$253,111
Changes during the Year			
Service Cost	6,259		6,259
Interest	7,781		7,781
Experience (Gains)/Losses	(32,078)		(32,078)
Change in plan terms			0
Change in actuarial assumptions	976		976
Contributions to OPEB trust			-
Contributions/benefit paid from general operating funds	-	-	-
Employee Contributions		-	-
Net Investment Income		-	-
Benefit Payments; Including Refunds of Employee Contributions	-	-	-
Administrative Expenses		-	-
Other Changes		-	-
Total Changes	(17,062)	-	(17,062)
Balance at December 31, 2020	\$236,049	\$-	\$236,049

Net OPEB Liability – Discount and Trend Rate Sensitivities

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

Discount	1% Decrease	Current Rate	1% Increase
Total OPEB Liability	\$249,332	\$236,049	\$223,631
Plan Fiduciary Net Position	-	-	-
Net OPEB Liability	\$249,332	\$236,049	\$223,631
Trend	1% Decrease	Current Rate	1% Increase
Total OPEB Liability	\$218,933	\$236,049	\$255,489
Plan Fiduciary Net Position	-	-	-
Net OPEB Liability	\$218,933	\$236,049	\$255,489

RECONCILIATION AND RECOGNITION OF NET OPEB LIABILITY

OPEB Expense

Below are the components of the Total OPEB Expense:

	Fiscal Year Ending 12/31/2020
Service Cost	\$6,259
Interest on Total OPEB Liability	7,781
Experience (Gains)/Losses	(3,093)
Changes in Plan Terms	-
Changes in Assumptions	94
Employee Contributions	-
Projected Earnings on OPEB Plan Investments	-
Investment Earnings (Gains)/Losses	-
Administrative Expenses	-
Other Changes in Fiduciary Net Position	-
Total OPEB Expense	\$11,041

OPEB Plan Fiduciary Net Position

The OPEB Plan Fiduciary Net Position as of December 31, 2020 is \$ 0.

Deferred Inflows and Outflows of Resources Related to OPEB Plan

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Experience (Gains)/Losses	-	28,985
Changes of Assumptions	882	-
Investment Earnings (Gains)/Losses	-	-
Total	\$882	\$28,985

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
2021	\$(2,999)
2022	(2,999)
2023	(2,999)
2024	(2,999)
2025	(2,999)
Thereafter	(13,108)

RECONCILIATION AND RECOGNITION OF NET OPEB LIABILITY

Reconciliation of Net OPEB Liability

	Net OPEB Liability
Net OPEB Liability December 31, 2019	\$253,111
Total OPEB expense	11,041
Contributions	-
Change in deferred outflows of resources	882
Change in deferred inflows of resources	<u>(28,985)</u>
Net OPEB Liability December 31, 2020	\$236,049

Total OPEB Liability by Participant Status

	Total OPEB Liability
Active participants	\$236,049
Inactive participants	-
Retirees and beneficiaries	-
Total OPEB Liability	\$236,049

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Description of Actuarially Determined Contributions

Previously, under Governmental Accounting Standards Board (GASB) Statement Nos. 43 and 45, an Annual Required Contribution (ARC) was provided in order that an OPEB plan sponsor could either contribute such amount to an OPEB trust or book the balance on the employer's financial pages as an OPEB Obligation.

GASB Nos. 74 and 75, however, eliminate the ARC as a component of the financial statement and, instead, separately identify an accounting expense that must be recorded on the financial pages - whether or not a contribution was actually made to an OPEB trust. Although a recommended contribution is no longer necessary as part of GASB reporting, we have included one along with the accounting entries in this report in order to provide information for funding. This recommended contribution is designed to eventually fund your plan enough that you can pay retiree benefits directly from that trust instead of general operating funds. The amortization period is based on average future working years for active employees.

Actuarially Determined Contribution (ADC)	Fiscal Year Ending December 31,	
	2021	2020
Discount rate	1.93%	3.0%
Amortization period	10 years	11 years
Amortization method	Level %	Level %
Normal cost	8,779	6,259
Amortization of Net OPEB Liability	23,512	26,559
Interest to end of year	940	985
Total ADC	\$33,231	\$33,802

PA 202 was issued by the State of Michigan and requires the calculation of other "contribution" amounts. These are

1. The Actuarially Determined Contribution (ADC) using Assumptions for financial reporting and
2. The minimum required amount to be deposited into an OPEB trust

The first of these contributions as shown above, \$33,802, is an amount required to be reported to the State of Michigan and may be used to determine whether a Corrective Action Plan (CAP) must be adopted if one hasn't yet been implemented. *It is not a required contribution.*

The second of these numbers, shown in the last table on the following page of this report is the actual minimum amount the State of Michigan requires you to deposit into a trust and it is based on the normal cost (actuarially calculated) for those covered by your plan and hired after June 30, 2018. Because no one in this plan has been hired after June 30, 2018, this amount for 2020 is \$-0-. If anyone is hired in 2021 who could become eligible for benefits under this plan, a contribution of \$1,300 per new hire should be sufficient to satisfy the State of Michigan's Public Act 202's funding requirement.

Minimum funding rules under PA 202 require that retiree healthcare benefits continue to be paid from general operating funds until plan funds are sufficient to pay benefits.

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

State of Michigan Public Acts 530 and 202 Information

Financial information	2020
Assets (Fiduciary net position)	0
Liabilities (Total OPEB Liability)	236,049
Funded ratio for the Plan Year	0.00%
Actuarially Determined Contribution	\$33,802
Is ADC calculated in compliance with No. Letter 2018-3?	Yes

Membership	2020
Number of active members	14
Number of inactive members	-0-
Number of retirees and beneficiaries	-0-
Premiums paid on behalf of the retirants	\$-0-

Investment Performance
This information is available from the Investment Manager

Actuarial Assumptions	2020
Actuarially assumed rate of investment return	0.00%
Discount rate	1.93%
Amortization method used for funding unfunded liability	Level %
Amortization period used for funding unfunded liability	11 years
Is each division closed to new employees	Yes
Healthcare inflation assumption next year	N/A
Healthcare inflation assumption - long term	N/A

Uniform Assumptions	2020
Actuarial value of assets using uniform assumptions	0
Actuarial accrued liability using uniform assumptions	214,699
Funded ratio using uniform assumptions	0.00%
Actuarially Determined Contribution (ADC) using uniform assumptions	\$33,802

Information for Summary Report (minimum required contribution) ¹	2020
Retiree insurance premiums for the year (1)	-0-
Normal cost as a percent of covered payroll (2)	
Covered payroll for employees hired after June 30, 2018 (3)	-0-
Normal cost for employees hired after June 30, 2018 (4) = (2)X(3)	-0-
Minimum required contribution under PA 202 (1) + (4)	\$-0-

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 due to retirants in the retirement system; In order to obtain 40% funding, higher contributions may be needed.

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Changes in Net OPEB Liability and Related Ratios

Fiscal Year Ending	12/31/2020	12/31/2019 ¹	12/31/2018 ¹
Total OPEB Liability			
Service Cost	\$6,259	\$5,667	\$5,667
Interest	7,781	7,290	6,852
Changes of Benefit Terms	0	0	0
Difference between Expected and Actual Experience	(32,078)	0	2,066
Change of Assumptions	976	0	0
Benefit Payments (Including Refunds of Employee Contributions)	0	0	0
Net Change in Total OPEB Liability	(17,062)	12,957	14,585
Total OPEB Liability – Beginning	253,111	240,154	225,569
Total OPEB Liability – Ending (a)	\$236,049	\$253,111	\$240,154
Plan Fiduciary Net Position			
Contributions to OPEB trust	\$0	\$0	\$0
Contributions/benefit payments made from general operating funds	0	0	0
Net Investment Income	0	0	0
Benefit Payments (Including Refunds of Employee Contributions)	0	0	0
Administrative Expenses	0	0	0
Other	0	0	0
Net Change in Fiduciary Net Position	0	0	0
Plan Fiduciary Net Position – Beginning	0	0	0
Plan Fiduciary Net Position – Ending (b)	0	0	0
Net OPEB Liability – Ending (a)-(b)	\$236,049	\$253,111	\$240,154
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	0.00%	0.00%	0.00%
Covered Employee Payroll	\$___	\$___	\$___
Net OPEB Liability as Percentage of Payroll	___%	___%	___%

¹ As reported by prior service provider

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Fiscal Year Ending	12/31/2020	12/31/2019 ¹	12/31/2018 ¹
Actuarially Determined Contribution	\$33,802	\$___	\$17,920
Employer Contribution/benefit payments	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency/(Excess)	\$33,802	\$___	\$17,920
ADC as a Percentage of Covered Payroll	___%	___%	___%
Employer Contribution as a Percentage of Covered Payroll	0.0%	0.0%	0.0%

¹ As reported by prior service provider

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Assumptions and Methods for Calculation of Actuarially Determined Contribution

Valuation date	December 31, 2020
Measurement date	December 31, 2020
Reporting date	December 31, 2020
Actuarial Methods	
Cost method	Entry Age Normal (level percentage of compensation)
Asset valuation method	Market value

Actuarial Assumptions

Discount Rate – 3.0% for 2020 contribution; 1.93% for December 31, 2020 liability and 2021 contribution
Rationale – Rate based on 20-year Aa Municipal Bond rate

20-year Aa Municipal Bond Rate – 1.93%
Rationale – Bond rate (based on information published by Bartel Associates, LLC as of December 31, 2020)

Salary Scale – 3.0%
Rationale – Per data provider input

Return on Plan Assets – None; the plan is not pre-funded

Mortality Rates
Pre-65; 2010 Public General Employees and Healthy Retirees, Headcount weighted, MP-2020
Medicare eligible; effectively no impact of mortality as benefits will continue to be paid until Medicare eligibility age whether the retiree survives or not
Rationale – Most current mortality rates available for municipalities

Utilization – 100% of eligible, covered employees at the valuation date will elect coverage at retirement; actual coverage used for non-active
Rationale – Consistent with prior actuarial calculations; no retiree experience currently available

Termination Rates – None other than rates at retirement:
Rationale – Standard conservative assumption for groups of this size

Retirement Rates – 100% at age when eligible for OPEB benefits
Rationale – Consistent with prior actuarial calculations; no retiree experience currently available

Marital Assumption – 100% of the active with a covered spouse will have a covered spouse at retirement to whom survivor portion will be paid
Rationale – Consistent with prior actuarial calculations; no retiree experience currently available

Pre-65 costs valued - \$15 per month per year of service
Rationale – Per plan provisions and no implicit subsidy given employer plan has age-specific medical premiums

Data Collection
Data and form of data - All personnel and asset data were prepared by the plan sponsor or a representative and was generally relied upon as being correct and complete without audit by Watkins Ross

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Assumption changes since prior valuation

- Mortality table changed from 2015 Life Tables for males or females from the Social Security Administration
- Discount rate changed from 3.0% to 1.93%

Assumptions used for PA 202 Reporting

Discount rate - 3.50%

Mortality – 2010 Public General Employees and Healthy Retirees, Headcount weighted, MP-2018

Salary Scale – 3.50%

All other assumptions are the same as used for GASB

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Difference between Actual and Expected Experience

Year Ended December 31,	Difference Between Expected and Actual Experience	Recognition Period (Years)	Amount Recognized in Year Ended December 31,						Deferred Outflow of Resources	Deferred Inflow of Resources
			2020	2021	2022	2023	2024	2025+		
			2020	(32,078)	10.37	(3,093)	(3,093)	(3,093)		
Net Recognized in OPEB Expense			(3,093)	(3,093)	(3,093)	(3,093)	(3,093)	(16,613)	-	(28,985)

Schedule of Changes in Assumptions

Year Ended December 31,	Changes in Actuarial Assumptions	Recognition Period (Years)	Amount Recognized in Year Ended December 31,						Deferred Outflow of Resources	Deferred Inflow of Resources
			2020	2021	2022	2023	2024	2025+		
			2020	976	10.37	94	94	94		
Net Recognized in OPEB Expense			94	94	94	94	94	506	882	-

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

Year Ended December 31,	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
			2020	2021	2022	2023	2024	2025+		
			2020	-	5.0	=	=	=		
Net Recognized in OPEB Expense			-	-	-	-	-	-	-	-

Total Deferred Outflow/(Inflow) of Resources

	Amount Recognized in Year Ended September 30,				
	2021	2022	2023	2024	2025+
Total Deferred Outflow/(Inflow) of Resources	(2,999)	(2,999)	(2,999)	(2,999)	(16,107)

SUMMARY OF PLAN PROVISIONS

Plan name	The Village of Sparta Other Post-Employment Benefits Plan
Eligibility Requirements	Attainment of age 55 with 20 years of service
Summary of benefits	
Retiree	The employer will provide up to \$15 times employee's years of continuous active service towards the cost of retiree monthly health insurance coverage until retiree becomes Medicare eligible; Eligible retirees must participate in the Village's insurance plan which provides a participant specific coverage rate
Surviving Spouse	If the retiree dies before reaching Medicare eligibility, the Village will continue to make payment towards retiree health insurance for the deceased retiree's spouse through the time that the deceased retiree would have reached Medicare eligibility
Changes Since Prior Valuation	None

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.

Actuarially Determined Contribution (ADC) – A target or recommended contribution for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted.

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.

Normal Cost – For GASB 74/75 purposes, normal cost is the equivalent of service cost (see definition of service cost).

Other Post-Employment Benefits (OPEB) – Benefits (such as death benefits, life insurance, disability, and long-term care) that are paid in the period after employment and that are provided separately from a pension plan, as well as healthcare benefits paid in the period after employment, regardless of the manner in which they are provided. OPEB does not include termination benefits or termination payments for sick leave.

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.

GLOSSARY

Plan assets – Stocks, bonds and other investments that have been segregated and restricted (usually in a trust) to provide for post-retirement benefits. Assets not segregated in a trust, or otherwise effectively restricted so that they cannot be used by the employer for other purposes, are not plan assets, even though it may be intended that those assets be used to provide post-retirement benefits.

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

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.

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.

Reporting Date – The date that represents the fiscal year end for the plan or employer.

Service Cost – The value of portion of Total OPEB Liability 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.

Valuation Date – The date as of which an actuarial valuation is performed.