Employees Retirement Plan of the Town of Hamden

Governmental Accounting Standards Board Statement 68 (GASB 68) Actuarial Valuation as of June 30, 2022

This report has been prepared at the request of the Retirement Board to assist the Town in preparing their financial report for their liabilities associated with the Retirement Plan. This valuation report may not otherwise be copied or reproduced in any form without the consent of the Retirement Board or the Town and may only be provided to other parties in its entirety. The measurements shown in this actuarial valuation may not be applicable for other purposes.

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October 25, 2022

Retirement Board, Employees Retirement Plan of the Town of Hamden
c/o Mayor Lauren Garrett
2750 Dixwell Avenue
Hamden, CT 06518-3320

Dear Board Members:

We are pleased to submit this Governmental Accounting Standards Board Statement 68 (GASB 68) Actuarial Valuation based on a June 30, 2022 measurement date for employer reporting as of June 30, 2022. It contains various information that will need to be disclosed in order for Retirement Plan employers to comply with GASB 68.

This report was prepared in accordance with generally accepted actuarial principles and practices at the request of the Board to assist the Town in preparing their financial report for their liabilities associated with the Retirement Plan. The census information on which our calculations were based were provided by the staff of the Town of Hamden and the financial information was provided by Clermont & Associates, LLC. That assistance is gratefully acknowledged.

The measurements shown in this actuarial valuation may not be applicable for other purposes. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions or applicable law.

The actuarial calculations were completed under my supervision. I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of my knowledge, the information supplied in the actuarial valuation is complete and accurate. Further, in my opinion, the assumptions as approved by the Board are reasonably related to the experience of and expectations for the Retirement Plan.

I look forward to reviewing this report with you and to answering any questions.

Sincerely,

Segal

Henry P. Nearing, FCA, MAAA, EA
Vice President and Consulting Actuary

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Section 1: Actuarial Valuation Summary

Purpose and basis

This report has been prepared by Segal to present certain disclosure information required by Governmental Accounting Standards Board Statement 68 (GASB 68) for employer reporting as of June 30, 2022. This valuation is based on:

- The benefit provisions of Retirement Plan, as administered by the Board;
- The characteristics of covered active members, terminated vested members, and retired members and beneficiaries as of July 1, 2021, provided by the Town;
- The assets of the Plan as of June 30, 2022, provided by the Auditor;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions, regarding employee terminations, retirement, death, cost-of-living increases, etc.

Highlights of the valuation

1. It is important to note that GASB 67 and 68 only define pension liability and expense for financial reporting purposes, and do not apply to contribution amounts for pension funding purposes. Employers and plans should develop and adopt funding policies under current practices, if no policy currently exists.
2. When measuring pension liability GASB uses the same actuarial cost method (Entry Age method) and the same discount rate (expected return on assets) as Retirement Plan uses for funding. This means that the Total Pension Liability (TPL) measure for financial reporting shown in this report is determined on the same basis as Retirement Plan's Actuarial Accrued Liability (AAL) measure for funding. We note that the same is generally true for the Normal Cost component of the annual plan cost for funding and financial reporting.
3. The Net Pension Liability (NPL) is equal to the difference between the TPL and the Plan Fiduciary Net Position. The Plan Fiduciary Net Position is equal to the market value of assets and therefore, the NPL measure is very similar to an Unfunded Actuarial Accrued Liability (UAAL) on a market value basis.
4. The NPL was measured as of June 30, 2022 and June 30, 2021 and determined based upon the results of the actuarial valuations as of July 1, 2021 and July 1, 2020, respectively.

Section 1: Actuarial Valuation Summary

5. The NPL increased from $270,656,881 as of June 30, 2021 to $294,591,330 as of June 30, 2022 primarily as a result of unfavorable investment results during the 2021/22 fiscal year. Changes in these values during the last two fiscal years ending June 30, 2021 and June 30, 2022 can be found in Section 2.
6. The discount rate used to measure the TPL and NPL as of June 30, 2022 and June 30, 2021 was 7.00%. Various other information that is required to be disclosed can be found throughout Section 2.
7. It is important to note that this actuarial valuation is based on plan assets as of June 30, 2022. Due to the COVID-19 pandemic, market conditions remain volatile. The Plan's actuarial status does not reflect short-term fluctuations of the market, but rather is based on the market values on the last day of the Plan Year.

Summary of key valuation results

Reporting Date for Employer under GASB 68		June 30, 2022	June 30, 2021
Measurement Date		**June 30, 2022**	**June 30, 2021**
Valuation Date		**July 1, 2021**	**July 1, 2020**
Disclosure elements for fiscal year ending June 30:	• Service cost	$3,778,756	$3,899,162
	• Total Pension Liability	479,925,153	474,264,812
	• Plan Fiduciary Net Position	185,333,823	203,607,931
	• Net Pension Liability	294,591,330	270,656,881
	• Pension expense	20,817,037	18,575,426
Schedule of contributions for fiscal year ending June 30:	• Actuarially determined contributions	$23,505,632	$23,427,618
	• Actual contributions	23,505,700	23,600,000
	• Contribution deficiency / (excess)	(68)	(172,382)
Demographic data for plan year ending June 30:	• Number of retired members and beneficiaries	786	780
	• Number of vested terminated members	22	21
	• Number of active members	263	294
Key assumptions as of June 30:	• Investment rate of return	7.00%	7.00%
	• Inflation rate	2.25%	2.25%
	• Projected salary increases	2.50%	2.50%

Important information about actuarial valuations

In order to prepare a valuation, Segal relies on a number of input items. These include:

Plan of benefits	Plan provisions define the rules that will be used to determine benefit payments, and those rules, or the interpretation of them, may change over time. It is important to keep Segal informed with respect to plan provisions and administrative procedures, and to review the plan description in this report (as well as the plan summary included in our funding valuation report) to confirm that Segal has correctly interpreted the plan of benefits.
Participant data	An actuarial valuation for a plan is based on data provided to the actuary by the Town. Segal does not audit such data for completeness or accuracy, other than reviewing it for obvious inconsistencies compared to prior data and other information that appears unreasonable. It is important for Segal to receive the best possible data and to be informed about any known incomplete or inaccurate data.
Assets	The valuation is based on the market value of assets as of the valuation date, as provided by the Auditor.
Actuarial assumptions	In preparing an actuarial valuation, Segal projects the benefits to be paid to existing plan participants for the rest of their lives and the lives of their beneficiaries. This projection requires actuarial assumptions as to the probability of death, disability, withdrawal, and retirement of each participant for each year. In addition, the benefits projected to be paid for each of those events in each future year reflect actuarial assumptions as to salary increases and cost-of-living adjustments. The forecasted benefits are then discounted to a present value, typically based on an estimate of the rate of return that will be achieved on the plan's assets or, if there are no assets, a rate of return based on 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). There is a reasonable range for each assumption used in the projection and the results may vary materially based on which assumptions are selected. It is important for any user of an actuarial valuation to understand this concept. Actuarial assumptions are periodically reviewed to ensure that future valuations reflect emerging plan experience. While future changes in actuarial assumptions may have a significant impact on the reported results, that does not mean that the previous assumptions were unreasonable.
Models	Segal valuation results are based on proprietary actuarial modeling software. The actuarial valuation models generate a comprehensive set of liability and cost calculations that are presented to meet regulatory, legislative and client requirements. Our Actuarial Technology and Systems unit, comprised of both actuaries and programmers, is responsible for the initial development and maintenance of these models. The models have a modular structure that allows for a high degree of accuracy, flexibility and user control. The client team programs the assumptions and the plan provisions, validates the models, and reviews test lives and results, under the supervision of the responsible actuary. The blended discount rate used for calculating total pension liability is based on a model developed by our Actuarial Technology and Systems unit, comprised of both actuaries and programmers. The model allows the client team, under the supervision of the responsible actuary, control over the entry of future expected contribution income, benefit payments and administrative expenses. The projection of fiduciary net position and the discounting of benefits is part of the model.

Section 1: Actuarial Valuation Summary

The user of Segal's actuarial valuation (or other actuarial calculations) should keep the following in mind:

The valuation is prepared at the request of the Town to assist in preparing items related to the pension plan in their financial reports. Segal is not responsible for the use or misuse of its report, particularly by any other party.
An actuarial valuation is a measurement of the plan's assets and liabilities at a specific date. Accordingly, except where otherwise noted, Segal did not perform an analysis of the potential range of future financial measures. The actual long-term cost of the plan will be determined by the actual benefits and expenses paid and the actual investment experience of the plan.
If the Town is aware of any event or trend that was not considered in this valuation that may materially change the results of the valuation, Segal should be advised, so that we can evaluate it.
Segal does not provide investment, legal, accounting, or tax advice. Segal's valuation is based on our understanding of applicable guidance in these areas and of the plan's provisions, but they may be subject to alternative interpretations. The Town should look to their other advisors for expertise in these areas.

As Segal has no discretionary authority with respect to the management or assets of the Plan, it is not a fiduciary in its capacity as actuaries and consultants with respect to the Plan.

Section 2: GASB 68 Information

General information about the pension plan

Plan Description

Plan administration. The Town of Hamden administers the Employees Retirement Plan of the Town of Hamden – a single-employer defined benefit pension plan. The Plan provides retirement, disability, and survivorship benefits for eligible employees of the Town.

Plan membership. At July 1, 2021, pension plan membership consisted of the following:

Retired members or beneficiaries currently receiving benefits	786
Vested terminated members entitled to but not yet receiving benefits	22
Active members	263
Total	1,071

Benefits provided. See the Actuarial Valuation and Review as of July 1, 2021 for the Employees Retirement Plan of the Town of Hamden, dated March 28, 2022, for a full description of benefits provided by the Plan.

Net pension liability

Reporting Date for Employer under GASB 68	**June 30, 2022**	**June 30, 2021**
Measurement Date	**June 30, 2022**	**June 30, 2021**
Components of the Net Pension Liability		
Total Pension Liability	$479,925,153	$474,264,812
Plan Fiduciary Net Position	185,333,823	203,607,931
Net Pension Liability	294,591,330	270,656,881
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	38.62%	42.93%

The Net Pension Liability (NPL) for the plan was measured as of June 30, 2022 and 2021. Plan Fiduciary Net Position (plan assets) was valued as of the measurement dates and the Total Pension Liability (TPL) as of June 30, 2022 was determined based upon rolling forward the TPL from the actuarial valuation as of July 1, 2021.

Actuarial assumptions. The TPL as of June 30, 2022 and 2021, that were measured by actuarial valuations as of July 1, 2021 and July 1, 2020, respectively, used the following actuarial assumptions, applied to all periods included in the measurement.:

Inflation	2.25%
Salary increases	2.50%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation
Other assumptions	See the Actuarial Valuation and Review as of July 1, 2021 for the Employees Retirement Plan of the Town of Hamden, dated March 28, 2022 for a complete description of all actuarial assumptions.

Determination of discount rate and investment rates of return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns 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, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	42.50%	6.40%
Fixed Income	30.00%	0.40%
Real Estate	17.50%	3.90%
International Equity	10.00%	6.80%
Total	100.00%	

Discount rate. The discount rate used to measure the Total Pension Liability (TPL) was 7.00% as of June 30, 2022 and June 30, 2021. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan Fiduciary Net Position (FNP) was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL as of both June 30, 2022 and June 30, 2021.

Discount rate sensitivity

Sensitivity of the Net Pension Liability to changes in the discount rate. The following presents the Net Pension Liability (NPL) of the Retirement Plan as of June 30, 2022, calculated using the discount rate of 7.00%, as well as what the Retirement Plan's NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability	$348,175,685	$294,591,330	$249,461,016

Schedule of changes in Net Pension Liability – Last two fiscal years

Reporting Date for Employer under GASB 68	June 30, 2022	June 30, 2021
Measurement Date	**June 30, 2022**	**June 30, 2021**
Total Pension Liability		
Service cost	$3,778,756	$3,899,162
Interest	32,400,703	31,967,621
Change of benefit terms	- -	--
Differences between expected and actual experience	(6,366,006)	- -
Changes of assumptions	6,199,656	- -
Benefit payments, including refunds of member contributions	(30,352,768)	(28,766,211)
Net change in Total Pension Liability	$5,660,341	$7,100,572
Total Pension Liability – beginning	474,264,812	467,164,240
Total Pension Liability – ending	$479,925,153	$474,264,812
Plan Fiduciary Net Position		
Contributions – employer	$23,505,700	$23,600,000
Contributions – employee	1,635,758	1,842,951
Net investment income	(12,866,862)	38,332,278
Benefit payments, including refunds of member contributions	(30,352,768)	(28,766,211)
Administrative expense	(195,936)	(226,390)
Other	- -	- -
Net change in Plan Fiduciary Net Position	($18,274,108)	$34,782,628
Plan Fiduciary Net Position – beginning	203,607,931	168,825,303
Plan Fiduciary Net Position – ending	$185,333,823	$203,607,931
Net Pension Liability – ending	$294,591,330	$270,656,881
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	38.62%	42.93%
Covered payroll	$22,140,394	$23,606,564
Plan Net Pension Liability as percentage of covered payroll	1,330.56%	1,146.53%
Dollar-Weighted Rate of Return	(6.40%)	22.95%

Notes to Schedule: None

Deferred outflows of resources and deferred inflows of resources

Reporting Date for Employer under GASB 68	June 30, 2022	June 30, 2021
Measurement Date	**June 30, 2022**	**June 30, 2021**
Deferred Outflows of Resources		
Changes of assumptions or other inputs	$3,099,828	- -
Net difference between projected and actual earnings on pension plan investments	6,554,951	- -
Difference between expected and actual experience in the Total Pension Liability	- -	- -
Total Deferred Outflows of Resources	$9,654,779	- -
Deferred Inflows of Resources		
Changes of assumptions or other inputs	- -	- -
Net difference between projected and actual earnings on pension plan investments	- -	$20,151,336
Difference between expected and actual experience in the Total Pension Liability	$3,183,003	- -
Total Deferred Inflows of Resources	$3,183,003	$20,151,336
Deferred outflows of resources and deferred inflows of resources related to pension will be recognized as follows:		
Reporting Date for Employer under GASB 68 Year Ended June 30:		
2022	N/A	($5,162,155)
2023	$406,916	(4,895,942)
2024	620,543	(4,765,490)
2025	58,284	(5,327,749)
2026	5,386,033	- -
2027	- -	- -
Thereafter	- -	- -

The average of the expected service lives of all employees is determined by:

- Calculating each active employee's expected remaining service life as the present value of $1 per year of future service at zero percent interest.
- Setting the remaining service life to zero for each nonactive or retired member.
- Dividing the sum of the above amounts by the total number of active employee, nonactive and retired members.

The average of the expected remaining service lives of all employees that are provided with pensions through Employees Retirement Plan of the Town of Hamden (active and inactive participants) determined as of June 30, 2021 is two years.

Schedule of recognition of change in total Net Pension Liability

Increase / (Decrease) in Pension Expense Arising from the Recognition of the Effects of Differences between Expected and Actual Experience on Total Pension Liability

Reporting Date for Employer under GASB 68 Year Ended June 30	Differences between Expected and Actual Experience	Original Recognition Period (Years)	2021	2022	2023	2024	2025	2026	2027	Thereafter
2020	$4,890,298	2.00	$2,445,149	- -	- -	- -	- -	- -	- -	- -
2021	0	2.00	0	$0	- -	- -	- -	- -	- -	- -
2022	(6,366,006)	2.00	N/A	(3,183,003)	($3,183,003)	- -	- -	- -	- -	- -
Net increase / (decrease) in pension expense			N/A	($3,183,003)	($3,183,003)	- -	- -	- -	- -	- -

Increase / (Decrease) in Pension Expense Arising from the Recognition of the Effects of Assumption Changes

Reporting Date for Employer under GASB 68 Year Ended June 30	Assumption Changes	Original Recognition Period (Years)	2021	2022	2023	2024	2025	2026	2027	Thereafter
2020	$78,428	2.00	$39,214	- -	- -	- -	- -	- -	- -	- -
2021	0	2.00	0	$0	- -	- -	- -	- -	- -	- -
2022	6,199,656	2.00	N/A	3,099,828	$3,099,828	- -	- -	- -	- -	- -
Net increase / (decrease) in pension expense			N/A	$3,099,828	$3,099,828	- -	- -	- -	- -	- -

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Increase / (Decrease) in Pension Expense Arising from the Recognition of the Effects of Differences between Projected and Actual Earnings on Pension Plan Investments

Reporting Date for Employer under GASB 68 Year Ended June 30	Differences between Projected and Actual Earnings	Original Recognition Period (Years)	2021	2022	2023	2024	2025	2026	2027	Thereafter
2017	($6,517,353)	5.00	($1,303,471)	- -	- -	- -	- -	- -	- -	- -
2018	(1,331,066)	5.00	(266,213)	($266,213)	- -	- -	- -	- -	- -	- -
2019	(652,258)	5.00	(130,452)	(130,452)	($130,452)	- -	- -	- -	- -	- -
2020	2,811,293	5.00	562,259	562,259	562,259	$562,259	- -	- -	- -	- -
2021	(26,638,745)	5.00	(5,327,749)	(5,327,749)	(5,327,749)	(5,327,749)	($5,327,749)	- -	- -	- -
2022	26,930,164	5.00	N/A	5,386,032	5,386,033	5,386,033	5,386,033	5,386,033	- -	- -
Net increase / (decrease) in pension expense			N/A	$223,877	$490,091	$620,543	$58,284	$5,386,033	- -	- -

Total Increase / (Decrease) in Pension Expense

Reporting Date for Employer under GASB 68 Year Ended June 30	Total Increase / (Decrease) in Pension Expense	2021	2022	2023	2024	2025	2026	2027	Thereafter
2017	($6,719,313)	($1,303,471)	- -	- -	- -	- -	- -	- -	- -
2018	(2,079,002)	(266,213)	($266,213)	- -	- -	- -	- -	- -	- -
2019	(2,700,984)	(130,452)	(130,452)	($130,452)	- -	- -	- -	- -	- -
2020	7,780,019	3,046,622	562,259	562,259	$562,259	- -	- -	- -	- -
2021	(26,638,745)	(5,327,749)	(5,327,749)	(5,327,749)	(5,327,749)	($5,327,749)	- -	- -	- -
2022	26,763,814	N/A	5,302,857	5,302,858	5,386,033	5,386,033	$5,386,033	- -	- -
Net increase / (decrease) in pension expense		N/A	$140,702	$406,916	$620,543	$58,284	$5,386,033	- -	- -

Pension expense

Reporting Date for Employer under GASB 68	June 30, 2022	June 30, 2021
Measurement Date	**June 30, 2022**	**June 30, 2021**
Components of Pension Expense		
Service cost	$3,778,756	$3,899,162
Interest on the Total Pension Liability	32,400,703	31,967,621
Current-period benefit changes	- -	- -
Expensed portion of current-period difference between expected and actual experience in the Total Pension Liability	(3,183,003)	- -
Expensed portion of current-period changes of assumptions or other inputs	3,099,828	- -
Member contributions	(1,635,758)	(1,842,951)
Projected earnings on plan investments	(14,063,302)	(11,693,533)
Expensed portion of current-period differences between actual and projected earnings on plan investments	5,386,032	(5,327,749)
Administrative expense	195,936	226,390
Recognition of beginning of year deferred outflows of resources as pension expense	562,259	3,046,622
Recognition of beginning of year deferred inflows of resources as pension expense	(5,724,414)	(1,700,136)
Pension Expense	**$20,817,037**	**$18,575,426**

Schedule of reconciliation of Net Pension Liability

Reporting Date for Employer under GASB 68	June 30, 2022	June 30, 2021
Measurement Date	**June 30, 2022**	**June 30, 2021**
Beginning Net Pension Liability	$270,656,881	$298,338,937
Pension expense	20,817,037	18,575,426
Employer contributions	(23,505,700)	(23,600,000)
New net deferred inflows/outflows	21,460,957	(21,310,996)
Recognition of prior deferred inflows/outflows	5,162,155	(1,346,486)
Ending Net Pension Liability	$294,591,330	$270,656,881

Schedule of contributions – Last nine fiscal years

Year Ended June 30	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency / (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$27,688,031	$12,500,000	$15,188,031	$29,347,110	42.59%
2015	29,536,050	14,768,025	14,768,025	28,992,189	50.94%
2016	21,998,113	12,100,000	9,898,113	28,397,008	42.61%
2017	21,067,247	14,747,073	6,320,174	26,805,022	55.02%
2018	21,974,384	12,650,000	9,324,384	26,088,216	48.49%
2019	22,605,704	15,925,708	6,679,996	24,957,309	63.81%
2020	23,230,930	19,210,000	4,020,930	23,030,794	83.41%
2021	23,427,618	23,600,000	(172,382)	23,606,564	99.97%
2022	23,505,632	23,505,700	(68)	22,140,394	106.17%

See accompanying notes to this schedule on next page.

Section 2: GASB 68 Information

Notes to Schedule:

Methods and assumptions used to establish "actuarially determined contribution" rates:

Valuation date	Actuarially determined contribution is calculated using a July valuation date as of the beginning of the fiscal year in which contributions are reported
Actuarial cost method	Entry age
Amortization method	Level percent with 2% annual increases, closed period
Remaining amortization period	23 years remaining as of July 1, 2021
Asset valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the actuarial value, and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value.
Actuarial assumptions:	
Investment rate of return	7.00%, net of pension plan investment expense, including inflation.
Inflation rate	2.25%
Real across-the-board salary increase	2.50%
Projected salary increases	2.25%
Cost of living adjustments	3.00% for the 2021/22 and 2022/23 fiscal years, dropping to 2.25% thereafter (previously 2.25% for all years) for active Guardians, Guardian retirees with dates of retirement after December 1, 1980, Town retirees with dates of retirement after December 1, 1980 and before July 1, 2018, and Board of Education retirees with dates of retirement after December 1, 1980 and before September 1, 2018. 1.75% for active Town and Board of Education employees, Town retirees with dates of retirement on or after July 1, 2018, and Board of Education retirees with dates of retirement on or after September 1, 2018. 3.00% for those who retired December 1, 1980 or earlier, based on accumulated banked inflation. 2.25% is the long-term inflation assumption for the Plan; the 1.75% assumption reflects a negotiated COLA cap.
Other assumptions	Same as those used in Actuarial Valuation and Review as of July 1, 2021 for the Employees Retirement Plan of the Town of Hamden, dated March 28, 2022.

Section 3: Appendix

Appendix A: Definition of Terms

Definitions of certain terms as they are used in Statement 68. The terms may have different meanings in other contexts.

Active Employees:	Individuals employed at the end of the reporting or measurement period, as applicable.
Actual Contributions:	Cash contributions recognized as additions to a pension Plan Fiduciary Net Position.
Actuarial Present Value of Projected Benefit Payments:	Projected benefit payments discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment.
Actuarial Valuation:	The determination, as of a point in time (the actuarial valuation date), of the service cost, Total Pension Liability, and related actuarial present value of projected benefit payments for pensions performed in conformity with Actuarial Standards of Practice unless otherwise specified by the GASB.
Actuarial Valuation Date:	The date as of which an actuarial valuation is performed.
Actuarially Determined Contribution:	A target or recommended contribution to a defined benefit pension plan 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.
Ad Hoc Cost-of-Living Adjustments (Ad Hoc COLAs):	Cost-of-living adjustments that require a decision to grant by the authority responsible for making such decisions.
Ad Hoc Postemployment Benefit Changes:	Postemployment benefit changes that require a decision to grant by the authority responsible for making such decisions.
Agent Employer:	An employer whose employees are provided with pensions through an agent multiple-employer defined benefit pension plan.
Agent Multiple-Employer Defined Benefit Pension Plan (Agent Pension Plan):	A multiple-employer defined benefit pension plan in which pension plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
Allocated Insurance Contract:	A contract with an insurance company under which related payments to the insurance company are currently used to purchase immediate or deferred annuities for individual employees. Also may be referred to as an annuity contract.
Automatic Cost-of-Living Adjustments	Cost-of-living adjustments that occur without a requirement for a decision to grant by a

(Automatic COLAs):	responsible authority, including those for which the amounts are determined by reference to a specified experience factor (such as the earnings experience of the pension plan) or to another variable (such as an increase in the consumer price index).
Automatic Postemployment Benefit Changes:	Postemployment benefit changes that occur without a requirement for a decision to grant by a responsible authority, including those for which the amounts are determined by reference to a specified experience factor (such as the earnings experience of the pension plan) or to another variable (such as an increase in the consumer price index).
Closed Period:	A specific number of years that is counted from one date and declines to zero with the passage of time. For example, if the recognition period initially is five years on a closed basis, four years remain after the first year, three years after the second year, and so forth.
Collective Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:	Deferred outflows of resources and deferred inflows of resources related to pensions arising from certain changes in the collective Net Pension Liability.
Collective Net Pension Liability:	The Net Pension Liability for benefits provided through (1) a cost-sharing pension plan or (2) a single-employer or agent pension plan in circumstances in which there is a special funding situation.
Collective Pension Expense:	Pension expense arising from certain changes in the collective Net Pension Liability.
Contributions:	Additions to a pension Plan Fiduciary Net Position for amounts from employers, non-employer contributing entities (for example, state government contributions to a local government pension plan), or employees. Contributions can result from cash receipts by the pension plan or from recognition by the pension plan of a receivable from one of these sources.
Cost-of-Living Adjustments:	Postemployment benefit changes intended to adjust benefit payments for the effects of inflation.
Cost-Sharing Employer:	An employer whose employees are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan.
Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Cost-Sharing Pension Plan):	A multiple-employer defined benefit pension plan in which the pension obligations to the employees of more than one employer are pooled and pension plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.
Covered Payroll:	The payroll of employees that are provided with pensions through the pension plan.

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Deferred Retirement Option Program (DROP):	A program that permits an employee to elect a calculation of benefit payments based on service credits and salary, as applicable, as of the DROP entry date. The employee continues to provide service to the employer and is paid for that service by the employer after the DROP entry date; however, the pensions that would have been paid to the employee (if the employee had retired and not entered the DROP) are credited to an individual employee account within the defined benefit pension plan until the end of the DROP period.
Defined Benefit Pension Plans:	Pension plans that are used to provide defined benefit pensions.
Defined Benefit Pensions:	Pensions for which the income or other benefits that the employee will receive at or after separation from employment are defined by the benefit terms. The pensions may be stated as a specified dollar amount or as an amount that is calculated based on one or more factors such as age, years of service, and compensation. (A pension that does not meet the criteria of a defined contribution pension is classified as a defined benefit pension for purposes of Statement 68.)
Defined Contribution Pension Plans:	Pension plans that are used to provide defined contribution pensions.
Defined Contribution Pensions:	Pensions having terms that (1) provide an individual account for each employee; (2) define the contributions that an employer is required to make (or the credits that it is required to provide) to an active employee's account for periods in which that employee renders service; and (3) provide that the pensions an employee will receive will depend only on the contributions (or credits) to the employee's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other employees, as well as pension plan administrative costs, that are allocated to the employee's account.
Discount Rate:	The single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the total of the following: 1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension Plan Fiduciary Net Position is projected (under the requirements of Statement 68) to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term expected rate of return, calculated using the long-term expected rate of return on pension plan investments. 2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

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Entry Age Actuarial Cost Method:	A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability.
Inactive Employees:	Terminated individuals that have accumulated benefits but are not yet receiving them, and retirees or their beneficiaries currently receiving benefits.
Measurement Period:	The period between the prior and the current measurement dates.
Multiple-Employer Defined Benefit Pension Plan:	A defined benefit pension plan that is used to provide pensions to the employees of more than one employer.
Net Pension Liability (NPL):	The liability of employers and non-employer contributing entities to employees for benefits provided through a defined benefit pension plan.
Non-Employer Contributing Entities:	Entities that make contributions to a pension plan that is used to provide pensions to the employees of other entities. For purposes of Statement 68, employees are not considered non-employer contributing entities.
Other Postemployment Benefits:	All postemployment benefits other than retirement income (such as death benefits, life insurance, disability, and long-term care) that are provided separately from a pension plan, as well as postemployment healthcare benefits, regardless of the manner in which they are provided. Other postemployment benefits do not include termination benefits.
Pension Plans:	Arrangements through which pensions are determined, assets dedicated for pensions are accumulated and managed and benefits are paid as they come due.
Pensions:	Retirement income and, if provided through a pension plan, postemployment benefits other than retirement income (such as death benefits, life insurance, and disability benefits). Pensions do not include postemployment healthcare benefits and termination benefits.
Plan Members:	Individuals that are covered under the terms of a pension plan. Plan members generally include (1) employees in active service (active plan members) and (2) terminated employees who have accumulated benefits but are not yet receiving them and retirees or their beneficiaries currently receiving benefits (inactive plan members).
Postemployment	The period after employment.
Postemployment Benefit Changes:	Adjustments to the pension of an inactive employee.
Postemployment Healthcare Benefits:	Medical, dental, vision, and other health-related benefits paid subsequent to the termination of employment.

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Projected Benefit Payments:	All benefits estimated to be payable through the pension plan to current active and inactive employees as a result of their past service and their expected future service.
Public Employee Retirement System:	A special-purpose government that administers one or more pension plans; also may administer other types of employee benefit plans, including postemployment healthcare plans and deferred compensation plans.
Real Rate of Return:	The rate of return on an investment after adjustment to eliminate inflation.
Service Costs:	The portions of the actuarial present value of projected benefit payments that are attributed to valuation years.
Single Employer:	An employer whose employees are provided with pensions through a single-employer defined benefit pension plan.
Single-Employer Defined Benefit Pension Plan (Single-Employer Pension Plan)	A defined benefit pension plan that is used to provide pensions to employees of only one employer.
Special Funding Situations:	Circumstances in which a non-employer entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities and either of the following conditions exists: 1. The amount of contributions for which the non-employer entity legally is responsible is not dependent upon one or more events or circumstances unrelated to the pensions. 2. The non-employer entity is the only entity with a legal obligation to make contributions directly to a pension plan.
Termination Benefits:	Inducements offered by employers to active employees to hasten the termination of services, or payments made in consequence of the early termination of services. Termination benefits include early-retirement incentives, severance benefits, and other termination-related benefits.
Total Pension Liability (TPL):	The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of Statement 68.