

**JULY 1, 2024**  
**ACTUARIAL VALUATION OF**  
**THE POST RETIREMENT BENEFITS PLAN**  
**OF**  
**MANCHESTER-ESSEX REGIONAL SCHOOL DISTRICT**

**October 2024**

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## SECTION I - OVERVIEW

Manchester-Essex Regional School District has engaged Sherman Actuarial Services, LLC (SAS) to prepare an actuarial valuation of their post-retirement benefits program as of July 1, 2024. This valuation was performed using employee census data, enrollment data, claims, premiums, participant contributions and plan provision information provided by personnel of Manchester-Essex Regional School District. SAS did not audit these data, although they were reviewed for reasonability. The results of the valuation are dependent on the accuracy of the data.

The purposes of the valuation are to analyze the current funded position of the MERSD's post-retirement benefits program, and determine the level of contributions necessary to assure sound funding.

As a funding report, we used a 7.5% discount rate for 2024. In addition, the liabilities shown do not include the implicit subsidy.

Section II provides a summary of the principal valuation results. Section V provides a projection of funding amounts.

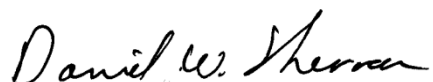
While the actuary believes that the assumptions are reasonable for financial reporting purposes, it should be understood that there is a range of assumptions that could be deemed reasonable that would yield different results. Moreover, while the actuary considers the assumption set to be reasonable based on prior plan experience, it should be understood that future plan experience may differ considerably from what has been assumed.

The report was prepared under the supervision of Daniel Sherman, an Associate of the Society of Actuaries and a Member of the American Academy of Actuaries, who takes responsibility for the overall appropriateness of the analysis, assumptions and results. Daniel Sherman is deemed to meet the General Qualification Standard and the basic education and experience requirement in the pension area. Based on over twenty years of performing FAS 106 and GAS #43 & #45 valuations of similar complexity, Mr. Sherman is qualified by experience in retiree medical valuation. Daniel Sherman has met the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

The costs and actuarial exhibits presented in this report have been prepared in accordance with the American Academy of Actuaries Standards of Practice. I am available to answer questions about this report.

Respectfully Submitted,

SHERMAN ACTUARIAL SERVICES, LLC



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Daniel Sherman, ASA, MAAA

October 1, 2024

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Date

## SECTION II - REQUIRED INFORMATION

a) Funding Policy	Full Pre-funding	Full Pre-funding	
b) Discount Rate	7.5%	7.5%	
c) Actuarial valuation date	July 1, 2024	July 1, 2022	Difference
Actuarial Value of Assets	\$ 5,895,658	\$ 4,086,078	\$ 1,809,580
Actuarial Accrued Liability			
d) Active participants	\$ 13,074,959	\$ 10,921,281	\$ 2,153,678
Retired participants	<u>14,645,151</u>	<u>14,118,586</u>	<u>526,565</u>
e) Total AAL	\$ 27,720,110	\$ 25,039,867	\$ 2,680,243
f) Unfunded Actuarial Liability "UAL" [ e - d ]	\$ 21,824,452	\$ 20,953,789	\$ 870,663
g) Funded ratio [ d / e ]	21.3%	16.3%	5.0%
h) Annual covered payroll	17,096,516	14,785,746	
i) UAL as percental of covered payroll	127.7%	141.7%	
j) Normal Cost for fiscal year end 2024	\$ 697,236	\$ 623,610	\$ 73,626
k) Amortization of UAL for fiscal year 2024 *	\$ 1,359,116	\$ 1,243,707	\$ 115,409
l) Interest to end of fiscal year	\$ 0	\$ 0	\$ 0
m) Annual Required Contribution "ARC" for fiscal year 2024 [ j + k + l ]	\$ 2,056,352	\$ 1,867,317	\$ 189,035
n) Expected claims payments	\$ 1,329,291	\$ 1,142,591	\$ 186,700

\* 24-year amortization, increasing 3.5% per year

### SECTION III - MEDICAL PREMIUMS

#### Monthly Premiums effective July 1, 2024

Health and dental benefits are available to employees and retirees through a number of plans. The following are gross monthly rates per subscriber for plans in which current MERSD employees and/or retirees are enrolled:

HRA (individual)	\$972.08
HRA (family)	\$2,624.68
HMO (individual)	\$972.08
HMO (family)	\$2,624.68
PPO (individual)	\$1,200.50
PPO (family)	\$3,241.50
Medex (individual)	\$435.00

Retirees contribute towards their coverage in the amount of 20% of the stated premiums for the MEDEX and HMO plans. Those electing the PPO pay the difference between the PPO cost and the portion the MERSD pays for the HMO plan. As of July 1, 2024 this represents 35.9%. Future retirees will contribute 25% if hired before 7/1/2015, otherwise 30%.

#### **SECTION IV - SCHEDULE OF EMPLOYER CONTRIBUTIONS**

The Government Accounting Standards Board outlines various requirements of a funding schedule that will amortize the unfunded actuarial liability and cover normal costs. Amortization of the unfunded actuarial liability is to be based on a schedule that extends no longer than 30 years. The contribution towards the amortization of the unfunded actuarial liability may be made in level payments or in payments increasing at the same rate as salary increases. There is no requirement to actually fund the Annual Recommended Contribution, however.

In the amortization schedules shown on the following pages, the amortization of the unfunded accrued liability is increasing at 3.5% for 30 years. The normal cost is expected to increase at the same rate as the assumed ultimate health care trend rate. The contributions were computed assuming that the contribution is paid at the end of the fiscal year. Projected benefit payments/employer contributions reflect only the benefit for those individuals now employed or retired, not any future entrants.

GASB stipulates that valuations must be performed at least biennially. The following projections are intended only to illustrate long-term implications of Prefunding versus Pay-as-You-Go.

## SECTION IV - SCHEDULE OF EMPLOYER CONTRIBUTIONS

## Full Prefunding Basis – 7.5%

Fiscal Year		Amortization		Estimated
<u>Ending In</u>	<u>Normal Cost</u>	<u>of UAL</u>	<u>ARC*</u>	<u>Premium Cost</u>
2024	697,236	1,359,116	2,056,352	1,229,753
2025	728,611	1,406,685	2,135,296	1,293,188
2026	761,399	1,455,919	2,217,318	1,354,111
2027	795,662	1,506,876	2,302,538	1,447,732
2028	831,467	1,559,617	2,391,084	1,599,657
2029	868,883	1,614,203	2,483,086	1,750,857
2030	907,983	1,670,701	2,578,684	1,887,074
2031	948,842	1,729,175	2,678,017	2,058,230
2032	991,540	1,789,696	2,781,236	2,239,992
2033	1,036,159	1,852,336	2,888,495	2,414,741
2034	1,082,786	1,917,167	2,999,953	2,556,226
2035	1,131,511	1,984,268	3,115,779	2,662,251
2036	1,182,429	2,053,718	3,236,147	2,673,283
2037	1,235,638	2,125,598	3,361,236	2,795,354
2038	1,291,242	2,199,994	3,491,236	2,894,278
2039	1,349,348	2,276,993	3,626,341	2,915,743
2040	1,410,069	2,356,688	3,766,757	3,098,946
2041	1,473,522	2,439,172	3,912,694	3,259,906
2042	1,539,830	2,524,543	4,064,373	3,394,183
2043	1,609,122	2,612,902	4,222,024	3,527,282
2044	1,681,532	2,704,354	4,385,886	3,651,314
2045	1,757,201	2,799,006	4,556,207	3,825,067
2046	1,836,275	2,896,971	4,733,246	3,854,559
2047	1,918,907	2,998,365	4,917,272	3,944,493
2048	2,005,258	-	2,005,258	3,964,990
2049	2,095,495	-	2,095,495	3,991,210
2050	2,189,792	-	2,189,792	4,025,951
2051	2,288,333	-	2,288,333	3,993,445
2052	2,391,308	-	2,391,308	4,078,181
2053	2,498,917	-	2,498,917	4,028,629
2054	2,611,368	-	2,611,368	4,065,812

\* Assumes payment is made at the end of the fiscal year.

**SECTION V – PARTICIPANT DATA**

Actives	202
Average Age	47.2
Average Service	10.4
Number of Teachers	133
Retirees and Beneficiaries	223
Average Age	71.4

**SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS**

**MANCHESTER-ESSEX REGIONAL SCHOOL DISTRICT, ALL GROUPS**

***Interest:*** Full Prefunding: 7.5% per year, net of investment expenses

***Actuarial Cost Method:*** Entry Age Normal.

***Healthcare Cost Trend Rate:***

<u>Year</u>	<u>Inflation Rate</u>
2024 & after	4.5%

***Amortization Period:*** 24-year level percent of pay assuming 3.5% aggregate annual payroll growth, closed basis. The amortization period is a specific number of years that is counted from one date, declining to zero with the passage of time.

***Participation:*** 85% of future retirees are assumed to participate in the retiree medical plan and 75% of future retirees are expected to elect life insurance.

***Age-based Morbidity:*** Medical costs are adjusted to reflect expected cost increases related to age. The increase in the net costs assumed to be:

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

**SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS****MANCHESTER-ESSEX REGIONAL SCHOOL DISTRICT, ALL GROUPS**

<b><i>Marital Status:</i></b>	80% of male employees and 60% of female employees are assumed to have a covered spouse at retirement. Wives are assumed to be three years younger than their husbands.
<b><i>Pre-Age 65 Retirees:</i></b>	<p>Current retirees who are under age 65 are assumed to remain in their current medical plan until age 65.</p> <p>Current active employees who are assumed to retire prior to age 65 are valued with a weighted-average premium. This weighted-average premium is based on the medical plan coverage of current retirees under age 65.</p>
<b><i>Post-Age 65 Retirees:</i></b>	Current retirees over age 65 remain in their current medical plan until death for purposes of measuring their contributions. It is assumed that future retirees are Medicare eligible. It is furthermore assumed that all current retirees under 65 will participate in the Medex plan in the same proportion as current retirees over 65. Per capita costs were developed from the MERSD developed monthly costs. Amounts to be received in the future for the Medicare Part D Retiree Drug Subsidy are not reflected in the valuation.
<b><i>Termination Benefit:</i></b>	85% of current actives over age 50 with at least 10 years of service are expected to elect medical coverage starting at age 65.
<b><i>Medical Plan Costs:</i></b>	The MERSD participants in three Blue Cross Blue Shield plans, and is considered fully insured. The estimated gross per capita incurred claim costs for all retirees and beneficiaries for 2024-25 at age 64 and 65 \$19,537 and \$4,953, respectively. Medicare eligible retirees' per capita claims costs at age 65 is \$5,333. It is assumed that future retirees participate in the same manner as current retirees. Employee cost sharing is based on current rates. Future cost sharing is based on the weighted average of the current cost sharing of retirees and beneficiaries.

**SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS**

**MANCHESTER-ESSEX REGIONAL SCHOOL DISTRICT, NON-TEACHERS**

SEPARATIONS FROM ACTIVE SERVICE: Representative values of the assumed annual rates of withdrawal and vesting, disability, death and service retirement are as follows:

Age	Disability	Service Retirement				Years of Service	Rates of Withdrawal
		Male	Female	Male Post 2012 Hire	Female Post 2012 Hire		
25	0.0001					0	0.2800
30	0.0002					5	0.1020
35	0.0003					10	0.0650
40	0.0007					15	0.0417
45	0.0010					20	0.0400
50	0.0013	0.0360	0.1019			25	0.0400
55	0.0016	0.0477	0.0469			30+	0.0000
60	0.0018	0.1057	0.0774	0.0477	0.0469		
62	0.0019	0.1473	0.1168	0.0632	0.0509		
65	0.0016	0.2615	0.1939	0.1057	0.0774		
69	0.0014	0.2500	0.2000	0.2136	0.1708		

Mortality: It is assumed that both pre-retirement mortality and beneficiary mortality is represented by the RP-2014 Blue Collar Mortality with Scale MP-2015, fully generational. Mortality for retired members for Group 1 and 2 is represented by the RP-2014 Blue Collar Mortality Table set forward five years for males and 3 years for females, fully generational. Mortality for disabled members for Group 1 and 2 is represented by the RP-2000 Mortality Table set forward six years. Generational adjusting is based on Scale MP-2015.

## MANCHESTER-ESSEX REGIONAL SCHOOL DISTRICT, TEACHERS

SEPARATIONS FROM ACTIVE SERVICE: Representative values of the assumed annual rates of withdrawal and vesting, disability, death and service retirement are as follows:

### Retirement – Males

Age	Not in Retirement Plus		Retirement Plus		
	Less than 20	20+	Less than 20	20 - 30	30+
47	0.000	0.000	0.000	0.000	0.000
48	0.000	0.000	0.000	0.000	0.000
49	0.000	0.000	0.000	0.000	0.000
50	0.000	0.020	0.000	0.010	0.020
51	0.000	0.020	0.000	0.010	0.020
52	0.000	0.020	0.000	0.010	0.020
53	0.000	0.020	0.000	0.015	0.020
54	0.000	0.030	0.000	0.025	0.020
55	0.035	0.030	0.050	0.030	0.060
56	0.035	0.035	0.050	0.060	0.200
57	0.050	0.040	0.050	0.100	0.400
58	0.055	0.050	0.050	0.150	0.500
59	0.060	0.060	0.100	0.200	0.500
60	0.075	0.150	0.100	0.250	0.400
61	0.120	0.250	0.200	0.300	0.400
62	0.140	0.300	0.200	0.350	0.350
63	0.140	0.300	0.250	0.400	0.350
64	0.140	0.300	0.250	0.400	0.350
65	0.300	0.300	0.250	0.400	0.350
66	0.300	0.250	0.300	0.300	0.400
67	0.300	0.250	0.300	0.300	0.400
68	0.300	0.250	0.300	0.300	0.400
69	0.300	0.250	0.300	0.300	0.400
70+	1.000	1.000	1.000	1.000	1.000

**Retirement – Females**

Age	Not in Retirement Plus	
	Less than 20	20+
47	0.000	0.000
48	0.000	0.000
49	0.000	0.000
50	0.000	0.010
51	0.000	0.010
52	0.000	0.015
53	0.000	0.020
54	0.000	0.020
55	0.035	0.040
56	0.035	0.040
57	0.035	0.040
58	0.050	0.060
59	0.065	0.080
60	0.085	0.150
61	0.100	0.200
62	0.120	0.200
63	0.120	0.250
64	0.200	0.300
65	0.300	0.400
66	0.300	0.300
67	0.300	0.300
68	0.300	0.300
69	0.300	0.300
70+	1.000	1.000

Retirement Plus		
Less than 20	20 - 30	30+
0.000	0.000	0.000
0.000	0.000	0.000
0.000	0.000	0.000
0.000	0.010	0.015
0.000	0.010	0.015
0.000	0.010	0.015
0.000	0.010	0.015
0.000	0.010	0.020
0.030	0.030	0.050
0.030	0.050	0.150
0.040	0.080	0.350
0.080	0.100	0.350
0.080	0.150	0.350
0.100	0.200	0.350
0.120	0.250	0.350
0.120	0.300	0.350
0.150	0.300	0.350
0.200	0.300	0.350
0.250	0.400	0.350
0.250	0.300	0.350
0.300	0.300	0.300
0.300	0.300	0.300
0.300	0.300	0.300
0.300	0.300	0.300
1.000	1.000	1.000

**Disability**

Age	Disability
20	0.00004
30	0.00006
40	0.00010
50	0.00050
60	0.00070
60	0.00070

**Withdrawal**

<b>Age</b>	<b>Service</b>					
	<b>0</b>		<b>5</b>		<b>10+</b>	
	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>
20	0.130	0.100	0.055	0.070	0.015	0.050
30	0.150	0.150	0.054	0.088	0.015	0.045
40	0.133	0.105	0.052	0.050	0.017	0.022
50	0.162	0.098	0.070	0.050	0.023	0.020

Mortality: It is assumed that mortality is represented by the RP-2014 White Collar Mortality with Scale MP-2017, fully generational. Generational adjusting is based on Scale MP-2017.

## SCHEDULE B - SUMMARY OF PROGRAM PROVISIONS

***Retirement Medical Insurance:*** All retirees and beneficiaries pay a 20% share of their post-retirement medical costs for MEDEX and HMO plans. Participants electing the PPO plan pay the difference between 80% of the HMO plan and the full cost of the PPO plan. Future retirees will contribute 25% if hired before 7/1/2015, otherwise 30%.

***Life Insurance:*** Manchester-Essex Regional School District provides \$5,000 of basic life insurance.

***Spousal Coverage:*** Current and future retirees may elect to include their spouses as part of their post-retirement benefits. Spousal coverage for medical insurance ends at the earlier of the retiree's death, and the spouse's death.

***Administrative Costs:*** The MERSD pays administrative costs for each member of the plan as part of the monthly premium.

***Section 18 Coverage:*** The MERSD has elected to adopt Section 18 under Chapter 32B of the General Laws of Massachusetts, which requires that an employee or retiree must participate in the Medicare program as the primary payer once one reaches age 65 and is Medicare eligible.

***Retirement Eligibility:*** Age 55 with 10 years of service, or 20 years of service.

***Ordinary Disability Eligibility:*** 10 years of service and under age 55.

***Termination Eligibility:*** 10 years of service.

## SCHEDULE C - CONSIDERATIONS OF HEALTH CARE REFORM

**Early Retiree Reinsurance Program ("ERRP") - Effective June 1, 2011:** Due to the short-term nature of the payments expected to be received under this program, we do not reflect this program in long-term GASB 45 liabilities.

**Removal of Lifetime Maximum:** The elimination of the lifetime maximums would have no impact on the retiree health plan obligations since, as far as we are aware, the plan has no lifetime maximums.

**Medicare Advantage Plans - Effective January 1, 2011:** The law provides for reductions to the amounts that would be provided to Medicare Advantage plans starting in 2011. Since the MERSD does not offer these plans, the reductions would have no impact.

**Expansion of Child Coverage to Age 26:** Since few retirees cover children on retiree health plans, this provision will likely have a relatively small effect on the gross benefit cost. We have reflected an estimate of the amount of additional cost by assuming a higher healthcare trend rate.

**Medicare Part D Subsidy - Shrinking Medicare Prescription Drug "Donut Hole"- Starting January 1, 2011:** RDS payments are not reflected as an ongoing offsetting item in GASB 45 valuations, and so no direct impact is reflected. RDS actuarial equivalence testing does not reflect the new donut hole shrinking Part D benefits. Thus, the changes to Medicare Part D have no impact on the calculations.

**Excise Tax on High-Cost Employer Health Plans (aka Cadillac Tax) - Effective January 1, 2018:** If tax has been repealed. Therefore, there is no impact on the liabilities.

**Other:** We have not identified any other specific provision of health care reform that would be expected to have a significant impact on the measured obligation. As additional guidance on the legislation is issued, we will continue to monitor any potential impacts.

## SCHEDULE D - GLOSSARY OF TERMS

### **Actuarial Accrued Liability**

That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of OPEB benefits and expenses which is not provided for by future Normal Costs and therefore is the value of benefits already earned.

### **Actuarial assumptions**

Assumptions as to the occurrence of future events affecting OPEB costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and Government provided OPEB benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; characteristics of future entrants for Open Group Actuarial Cost Methods; and other relevant items.

### **Actuarial cost method**

A procedure for determining the Actuarial Present Value of OPEB benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.

### **Actuarial experience gain or loss**

A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates, as determined in accordance with a particular Actuarial Cost Method.

### **Amortization (of unfunded actuarial accrued liability)**

That portion of the OPEB plan contribution which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability or the Unfunded Frozen Actuarial Accrued Liability.

### **Annual OPEB cost**

An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.

### **Annual recommended contributions of the employer (ARC)**

The employer's periodic expense to a defined benefit OPEB plan, calculated in accordance with the parameters. It is the value of the cash contributions for a funded plan.

### **Closed amortization period (closed basis)**

A specific number of years that is counted from one date and, therefore, declines to zero with the passage of time. For example, if the amortization period initially is thirty years on a closed basis, twenty-nine years remain after the first year, twenty-eight years after the second year, and so forth. In contrast, an open amortization period (open basis) is one that begins again or is recalculated at each actuarial valuation date. Within a maximum number of years specified by law or policy (for example, thirty years), the period may increase, decrease, or remain stable.

### **Covered payroll**

Annual compensation paid to active employees covered by an OPEB plan. If employees also are covered by a pension plan, the covered payroll should include all elements included in compensation on which contributions to the pension plan are based. For example, if pension contributions are calculated on base pay including overtime, covered payroll includes overtime compensation.

### **Defined benefit OPEB plan**

An OPEB plan having terms that specify the benefits to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based on one or more factors such as age, years of service, and compensation), or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums).

### **Funded ratio**

The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

## SCHEDULE D - GLOSSARY OF TERMS

### **Funding policy**

The program for the amounts and timing of contributions to be made by plan members, employer(s), and other contributing entities (for example, state government contributions to a local government plan) to provide the benefits specified by an OPEB plan.

### **Healthcare cost trend rate**

The rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

### **Investment return assumption (discount rate)**

The rate used to adjust a series of future payments to reflect the time value of money.

### **Level dollar amortization method**

The amount to be amortized is divided into equal dollar amounts to be paid over a given number of years; part of each payment is interest and part is principal (similar to a mortgage payment on a building). Because payroll can be expected to increase as a result of inflation, level dollar payments generally represent a decreasing percentage of payroll; in dollars adjusted for inflation, the payments can be expected to decrease over time.

### **Level percentage of projected payroll amortization method**

Amortization payments are calculated so that they are a constant percentage of the projected payroll of active plan members over a given number of years. The dollar amount of the payments generally will increase over time as payroll increases due to inflation; in dollars adjusted for inflation, the payments can be expected to remain level.

### **Net OPEB Obligation**

The cumulative difference since the effective date of this Statement between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt. It will be included as a balance sheet entry on the financial statements.

### **Normal cost**

That portion of the Actuarial Present Value of OPEB benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. It is the value of benefits to be accrued in the valuation year by active employees.

### **OPEB-related debt**

All long-term liabilities of an employer to an OPEB plan, the payment of which is not included in the annual required contributions of a sole or agent employer (ARC) or the actuarially determined required contributions of a cost-sharing employer. Payments generally are made in accordance with installment contracts that usually include interest. Examples include contractually deferred contributions and amounts assessed to an employer upon joining a multiple-employer plan.

### **Other postemployment benefits**

Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, excluding benefits defined as termination offers and benefits.

### **Pay-as-You-Go**

A method of financing an OPEB plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

### **Required supplementary information (RSI)**

Schedules, statistical data, and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity.