Definitions of Key Terms

The following definitions are provided to facilitate an understanding of concepts relating to Governmental Accounting Standards Board Statement 45 (GASB 45), Governmental Accounting Standards Board Statement 43 (GASB 43), and accounting for postemployment benefits other than pensions (OPEB).

Actuarial Accrued Liability (AAL): That portion of the Actuarial Present Value of Total Projected Benefits (APVTPB) not provided for by future normal costs. The AAL can be thought of as the value of OPEB benefits already earned in exchange for employees' past service. If a plan has been systematically funded by the employer since inception, the accumulated plan assets will theoretically be equal to the AAL.

Actuarial Present Value of Total Projected Benefits (APVTPB): The total projected costs to finance benefits payable in the future based on members' service through the valuation date and their future service, discounted to reflect the expected effects of the time value of money. It is the amount that would have to be invested on the valuation date so that the amount invested plus investment earnings will provide sufficient assets to pay the total projected benefits when due. The APVTPB is used to calculate the Annual Required Contribution (ARC).

Actuarial Value of Assets (AVA): The value of cash, investments and other property belonging to the OPEB plan, as used by the actuary for the purpose of a valuation (also see Plan Assets).

Annual OPEB Cost: An accrual-basis measure of an employer's periodic cost of offering OPEB (also see Attachment C).

Annual Required Contribution (ARC): The ARC is the actuarially-determined level of employer contribution that would be required on a sustained, ongoing basis to systematically fund the normal cost and to amortize the Unfunded Actuarial Accrued Liability (UAAL) attributed to past service over a period not to exceed thirty years. It is the amount needed to pay benefits as they come due plus amortize the UAAL. The ARC has two components: Normal cost and amortization of the UAAL for both active employees and retirees. If an employer funds less (or more) than the ARC, the difference is a liability (or asset) known as the net OPEB obligation.

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. With this method, the entire liability would be fully amortized at the end of thirty years. The closed amortization period is most commonly used in mortgage lending. In contrast, an open amortization period (open basis) is one that begins again or is recalculated each time a new actuarial valuation is performed. Within a maximum number of years specified by law or policy (for example, thirty years), the period may increase, decrease, or remain stable. With this method, the liability would still be reduced over time, but it would take many times longer to amortize it fully because the amortization period would start over after every valuation. The open amortization period is most commonly used in consumer lending such as credit cards.

Employer's contributions: Contributions made for OPEB in relation to the ARC. An employer has made a contribution in relation to the ARC if the employer has:

- Made payments of benefits directly to or on behalf of a retiree or beneficiary, or
- Made premium payments to an insurer, or
- Irrevocably transferred assets to a trust, or an equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer(s) or plan administrator

Assets that employers merely set aside, or earmark, for future benefits do not qualify as contributions for purposes of GASB 45; the employer would still report a net OPEB obligation.

Implicit Rate Subsidy: The difference between the premium rate for active employees alone and the blended rate used for all members, including retirees, rather than an age-adjusted premium.

Insured Benefits: An OPEB financing arrangement in which premiums are paid to an insurer while employees are in active service, in exchange for which the insurer unconditionally assumes the obligation to pay the postemployment benefits in accordance with the terms of the OPEB plan.

Net OPEB obligation (or asset): The cumulative difference between annual OPEB cost in relation to the ARC and the employer's contributions. The net OPEB obligation is reported as a liability (or asset) in the accrual-basis financial statements.

Normal cost: That portion of the APVTPB that is allocated to each valuation year by an actuarial cost method. Under most actuarial methods, Normal cost can be thought of as the cost for OPEB being earned by employees in exchange for services now. An employer that has even one OPEB-eligible active employee will have a Normal cost each year.

OPEB-eligible active full-time equivalent (FTE) employees: Active employees who are potentially eligible for future postemployment benefits, whether vested or not.

OPEB plan: GASB 45 and GASB 43 use the term "OPEB plan" differently. For purposes of GASB 43, an OPEB plan is an entity distinct from the employer, such as a trust, through which OPEB benefits are financed and administered. This distinction is similar to the distinction between employers and pension plans. In this context, "plan" is limited to situations in which benefits are advance funded. For purposes of Statement 45, the term "OPEB plan" is broader in scope. It encompasses all situations in which employers provide OPEB to their employees, regardless of how the benefits are financed. In this context, an OPEB plan refers to "all benefits to be provided to plan members or beneficiaries in accordance with the current substantive plan (the plan terms as understood by the employer and plan members)."

Open Amortization period (open basis): See Closed amortization period.

Pay-As-You-Go: A method of financing an OPEB or pension plan under which the contributions to the plan are generally made at about the same time and in about the same amount as retiree benefit payments and expenses coming due. In practice, employers that finance OPEB on a pay-as-you-go basis typically make payments directly to a provider; usually they do not have an established plan entity such as a trust.

Plan assets: Resources that have been segregated and restricted in a trust, or an equivalent arrangement, in which (a) employer contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, and (c) assets are legally protected from creditors of the employer(s) or plan administrator, for the payment of benefits in accordance with the terms of the plan. Assets earmarked by employers for OPEB are employer assets, not plan assets.

Plan liabilities: Obligations payable by the plan at the reporting date including, primarily, benefits and refunds due and payable to plan members and beneficiaries, and accrued investment and administrative expenses. Plan liabilities do not include actuarial accrued liabilities for benefits that are not due and payable at the reporting date.

Substantive Plan: See OPEB Plan.

Unfunded Actuarial Accrued Liability (UAAL): The excess of the Actuarial Accrued Liability (AAL) over the Actuarial Value of Assets (AVA). The UAAL can derive from three sources: unfunded past Normal costs, actuarial gains and losses (differences between actuarial assumptions and actual experience), and changes to the level of benefits promised.