

City of Trenton Retiree Health Care Plan

Actuarial Valuation Report
as of June 30, 2020



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May 28, 2021

Ms. Karen E. Sall
City Controller/Deputy City Administrator
City of Trenton
2800 Third Street
Trenton, Michigan 48183

**Re: City of Trenton Retiree Health Care Plan Actuarial Valuation as of June 30, 2020
Actuarial Disclosures**

Dear Ms. Sall:

Submitted in this report are the results of a Biennial Actuarial Valuation of the assets and liabilities associated with the employer financed retiree health benefits provided by the City of Trenton Retiree Health Care Plan. The date of the valuation was June 30, 2020.

This report was prepared at the request of the City and is intended for use by the City and those designated or approved by the City. This report may be provided to parties other than the City only in its entirety and only with the permission of the City. GRS is not responsible for unauthorized use of this report.

The purposes of the valuation are to measure the System's funding progress and to determine the Actuarially Determined Contributions for the fiscal years ending June 30, 2022 and June 30, 2023. This report should not be relied on for any purpose other than the purposes described herein. Determinations of the liability associated with the benefits described in this report for purposes other than those identified above may be significantly different. This report does not satisfy Governmental Accounting Standards Board (GASB) Statements No. 74 or No. 75.

The contributions in this report are determined using the actuarial assumptions and methods disclosed in Section E of this report. Additional assessment of risks was outside the scope of this assignment.

This valuation assumed the continuing ability of the plan sponsor to make the contributions necessary to fund this plan. A determination regarding whether or not the plan sponsor is actually able to do so is outside our scope of expertise and was not performed.

The findings in this report are based on data and other information through June 30, 2020. 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; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. The scope of an actuarial valuation does not include an analysis of the potential range of such future measurements.

Ms. Karen E. Sall
City of Trenton
May 28, 2021
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The valuation was based upon information furnished by the City of Trenton, concerning retiree health benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal reasonability and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by the City of Trenton.

This report was prepared using assumptions adopted by the City of Trenton. All actuarial assumptions used in this report are reasonable for the purposes of this valuation. Additional information about the actuarial assumptions is included in the section of this report entitled Actuarial Cost Method and Assumptions.

This report was prepared using our proprietary valuation model and related software which in our professional judgment has the capability to provide results that are consistent with the purposes of the valuation and has no material limitations or known weaknesses. We performed tests to ensure that the model reasonably represents that which is intended to be modeled.

This report has been prepared by actuaries who have substantial experience valuing public employee retirement health plans. To the best of our knowledge, the information contained in this report is accurate and fairly presents the actuarial position of the City of Trenton Retiree Health Care Plan as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices and with the Actuarial Standards of Practice issued by the Actuarial Standards Board.

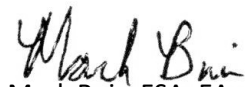
Mark Buis and Laura Frankowiak are Members of the American Academy of Actuaries (MAAA). These actuaries meet the Academy's Qualification Standards to render the actuarial opinions contained herein.

The signing actuaries are independent of the plan sponsor.

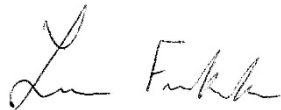
Gabriel, Roeder, Smith & Company will be pleased to review this valuation and report with the Board of Trustees and to answer any questions pertaining to the valuation.

Respectfully submitted,

GABRIEL, ROEDER, SMITH & COMPANY



Mark Buis, FSA, EA, FCA, MAAA



Laura Frankowiak, ASA, FCA, MAAA

MB/LF:dj



EXECUTIVE SUMMARY

Executive Summary

Actuarially Determined Contribution

Please note that beginning with the fiscal year ending June 30, 2017, GASB Statement No. 43 was replaced by GASB Statement No. 74. Also, beginning with the fiscal year ending June 30, 2018, GASB Statement No. 45 was replaced by GASB Statement No. 75. It is our understanding that the City of Trenton Retiree Health Care Plan is required to comply with both GASB Statement Nos. 74 and 75, and as such requires a separate GASB Statement Nos. 74 and 75 report at the completion of each fiscal year.

We have calculated the Actuarially Determined Contribution for the fiscal years ending June 30, 2022 and June 30, 2023 under the interest rate assumption of 5.75%. Below is a summary of the results. The Actuarially Determined Contributions and estimated claims and premiums (for current retirees only) shown below include the impact of any implicit rate subsidy present in your pre-65 rates.

Fiscal Year Ending	Actuarially Determined Contribution	Estimated Premiums/Claims Paid for Retirees
June 30, 2022	\$5,012,598	\$2,922,244
June 30, 2023	4,979,477	3,126,988

For additional details please see the Section titled “Valuation Results.”

Liabilities and Assets – as of June 30, 2020

1. Present Value of Future Benefit Payments	\$63,901,740
2. Actuarial Accrued Liability	57,826,500
3. Plan Assets	12,658,808
4. Unfunded Actuarial Accrued Liability (2) – (3)	45,167,692
5. Funded Ratio (3)/(2)	21.9%

The Present Value of Future Benefit Payments (PVFB) is the present value of all benefits projected to be paid from the plan for past and future service to current members. The Actuarial Accrued Liability is the portion of the PVFB allocated to past service by the Plan’s funding method (see the Section titled “Actuarial Cost Method and Actuarial Assumptions”).

SECTION A

VALUATION RESULTS

City of Trenton Retiree Health Care Plan – Results by Division as of June 30, 2020

	TPOAM	Non-Union	Water/WWTP	Fire	Police	Total
A. Present Value of Future Benefits						
i) Retirees and Beneficiaries	\$8,259,695	\$4,868,569	\$ 5,370,329	\$11,778,247	\$11,737,367	\$ 42,014,207
ii) Vested Terminated Members	0	0	0	0	0	0
iii) Active Members	<u>1,811,517</u>	<u>4,176,463</u>	<u>4,383,175</u>	<u>4,400,379</u>	<u>7,115,999</u>	<u>21,887,533</u>
Total Present Value of Future Benefits	10,071,212	9,045,032	9,753,504	16,178,626	18,853,366	63,901,740
B. Present Value of Future Normal Costs	247,764	602,644	598,663	2,018,175	2,607,994	6,075,240
C. Actuarial Accrued Liability (A.-B.)	9,823,448	8,442,388	9,154,841	14,160,451	16,245,372	57,826,500
D. Actuarial Value of Assets	1,354,118	1,163,745	5,949,640	1,951,954	2,239,351	12,658,808
E. Unfunded Actuarial Accrued Liability (C.-D.)	8,469,330	7,278,643	3,205,201	12,208,497	14,006,021	45,167,692
F. Funded Ratio (D./C.)	13.8%	13.8%	65.0%	13.8%	13.8%	21.9%
G. Fiscal Year Ending June 30, 2022						
i) Employer Normal Cost	\$ 39,425	\$ 102,097	\$ 95,168	\$ 166,608	\$ 256,009	\$ 659,307
ii) Amortization of UAAL (17 years)*	<u>816,280</u>	<u>701,520</u>	<u>308,919</u>	<u>1,176,663</u>	<u>1,349,909</u>	<u>4,353,291</u>
Actuarially Determined Contribution	\$ 855,705	\$ 803,617	\$ 404,087	\$ 1,343,271	\$ 1,605,918	\$ 5,012,598
H. Fiscal Year Ending June 30, 2023						
Actuarially Determined Contribution	\$ 852,191	\$ 792,379	\$ 394,953	\$ 1,345,381	\$ 1,594,573	\$ 4,979,477

* Unfunded Accrued Actuarial Liability.

The unfunded actuarial accrued liabilities were amortized as a level dollar amount over a period of 17 years beginning with the fiscal year ending June 30, 2022 and decreasing by 1 each year thereafter. The long-term rate of investment return used in this valuation is 5.75%.



Comments

Comment A: The recommended contributions for the June 30, 2020 valuation have decreased since the prior valuation as of June 30, 2018. Factors contributing to this decrease include, but are not limited to:

- More favorable claims and premium experience than projected;
- Adjusting the initial post-65 health care cost trend assumption to 6.25%; and
- Removal of the 4.00% excise tax load use in the June 30, 2018 valuation (see Comment F).

Partially offsetting these factors were increases due to:

- Decreasing the discount rate assumption from 6.00% to 5.75%;
- Adjusting the initial pre-65 health care cost trend assumption to 7.50%; and
- Updating the mortality tables and other demographic assumptions to be consistent with the MERS pension assumptions.

The combined impact of the changes in assumptions increased the liability by approximately \$2 million.

Comment B: One of the key assumptions used in any valuation of the cost of postemployment benefits is the rate of return on the assets that will be used to pay Plan benefits. Higher assumed investment returns will result in a lower Actuarially Determined Contribution. Lower returns will tend to increase the Actuarially Determined Contribution. We have calculated the liability and the resulting Actuarially Determined Contribution using an assumed annual rate of investment return of 5.75%.

Comment C: The plan sponsor is required by GASB to perform actuarial valuations at least biennially unless there are significant changes in the OPEB.

Comment D: The contributions shown include amortization of the unfunded actuarial accrued liability over a closed 17-year period beginning with the fiscal year ending June 30, 2022, decreasing by one each year thereafter.

Comment E: The calculations within this report have been performed incorporating \$12,658,808 in retiree health assets. We understand from the plan sponsor that these assets reside in a qualifying trust and can, therefore, be used in determining the Actuarially Determined Contribution. Per the request of the City, assets were allocated in the following way: 47% of the assets were used for the Water/WWTP group, and the remaining 53% of the assets were divided equally among the remaining subgroups shown in this report in proportion to each group's Actuarial Accrued Liability on the valuation date.

Comment F: On December 20, 2019, the "Further Consolidated Appropriations Act of 2020," H.R. 1865, was signed into law. The Act repeals the "Cadillac tax" which was a tax provision from the Affordable Care Act (ACA). As a result, any liability/provision analysis included as part of the prior funding valuation is no longer required. In addition, no further adjustments associated with the "Cadillac tax" are required. For purposes of the City of Trenton Retiree Health Care Plan funding valuation, the repeal of the "Cadillac tax" removes the 4.00% load that was applied as part of the June 30, 2018 funding valuation.

Comments

Comment G: The GASB issued Statement Nos. 74 and 75 for OPEB valuations similar to the new pension standards. GASB Statement No. 74 for the plan OPEB disclosures is effective for fiscal years beginning after June 15, 2016. GASB Statement No. 75 for employer OPEB disclosures is effective for employer fiscal years beginning after June 15, 2017. The GASB implementation guides for Statement Nos. 74 and 75 provide additional clarification related to the implementation of these Statements. The information necessary for GASB Statement Nos. 74 and 75 will need to be developed at a later date. The basis for the GASB Statement Nos. 74 and 75 information is expected to be this valuation (as of June 30, 2020), rolled forward to the measurement date.

Comment H: The Michigan State Treasurer has established uniform actuarial assumptions as required by Public Act 202 (PA 202) of 2017 for use with the annual Form 5572 (Retirement System Annual Report). The use of the uniform assumptions for reporting purposes is required for the fiscal year ending June 30, 2021. GRS plans to provide the necessary PA 202 uniform assumption information as part of the June 30, 2021 GASB Statement Nos. 74 and 75 report.

Comment I: Unless otherwise indicated, a funded status measurement presented in this report is based upon the actuarial accrued liability and the market value of assets. Unless otherwise indicated, with regards to any funded status measurements presented in this report:

- The measurement is inappropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations;
- A funded status measurement of 100% is not synonymous with no required future contributions. If the funded status were 100%, the Plan would still require future normal cost contributions (i.e., contributions to cover the cost of the active membership accruing an additional year of service credit); and
- The measurement is inappropriate for assessing the need for or the amount of future employer contributions.

Comment J: This report does not reflect the recent and still-developing impact of COVID-19, which is likely to influence demographic and economic experience, at least in the short term. We will continue to monitor these developments and their impact on the Retiree Health Care Plan. Actual experience will be reflected in each subsequent funding valuation, as experience emerges.

SECTION B

RETIREE PREMIUM RATE DEVELOPMENT

Retiree Premium Rate Development

Initial medical premium rates were developed for the two classes of retirees (pre-65 and post-65). For the pre-65 retirees, the medical rates were calculated by using actual incurred retiree claims and exposure data for the period of January 2018 to December 2020. The self-insured pre-65 medical data was provided by the City of Trenton.

For the post-65 retirees, the fully-insured medical rates provided by the City of Trenton were utilized to determine the appropriate premium rates. The fully-insured Medicare Advantage medical rate is used as the basis of the initial per capita cost without demographic adjustment since the rate reflects the demographics of this segment. In a Medicare Advantage Program, the liability is based on the difference between the present value of future claims minus the present value of future reimbursements from CMS. CMS' reimbursement is based on a very competitive bid process and has resulted in recent Medicare Advantage premiums trending at low rates of increase. Previously, a margin has been added to Medicare Advantage rates to recognize that increases in CMS reimbursements may lag behind the trends for healthcare costs. For the near term, we believe this margin is no longer necessary and we will monitor the Medicare Advantage environment and revisit the need for an additional margin at the time of the next valuation.

The prescription drug rates were calculated separately for pre-65 and post-65 retirees by using actual incurred retiree claims and exposure data for the period of January 2018 to December 2020. The self-insured prescription drug data was provided by the City of Trenton.

There are no differences between the benefit options available to future retirees/mirrored retirees and the non-mirrored existing retirees, other than cost sharing arrangements.

Age graded and sex distinct premiums are utilized by this valuation. The premiums developed by the preceding process are appropriate for the unique age and sex distribution currently existing. Over the future years covered by this valuation, the age and sex distribution will most likely change. Therefore, our process "distributes" the average premium over all age/sex combinations and assigns a unique premium for each combination. The age/sex specific premiums more accurately reflect the health care utilization and cost at that age.

The combined monthly one-person medical and drug premiums at select ages are shown below:

For Those Not Eligible for Medicare (Pre-65)				
Age	Future Retirees		Current Retirees	
	Male	Female	Male	Female
40	\$ 430.49	\$ 699.52	\$ 431.83	\$ 701.69
50	697.82	859.65	699.99	862.32
60	1,185.98	1,167.78	1,189.66	1,171.40
64	1,442.18	1,361.03	1,446.65	1,365.25

For Those Eligible for Medicare (Post-65)				
Age	Future Retirees		Current Retirees	
	Male	Female	Male	Female
65	\$ 521.87	\$ 492.23	\$ 560.71	\$ 528.87
75	610.59	595.80	656.03	640.14
85	645.66	653.27	693.72	701.89

We did not “age grade” the dental and vision premium rates for this valuation, since dental and vision claims do not vary significantly by age. Dental and vision coverage are only provided to retirees prior to age 65. The average monthly dental premiums used in this valuation are \$26.82 for the first person with coverage per member per month and \$22.22 for the second person with coverage per member per month. The monthly vision premium used in this valuation is \$11.76 for the first person with coverage per member per month and \$11.76 for the second person with coverage per member per month.

Health Care Cost Trend Assumption

The health care cost trend rate is the rate of change in per capita health care claims over time as a result of factors such as medical inflation, utilization of health care services, plan design, and technological improvements. It is a crucial economic assumption that is required for measuring retiree health care benefit obligations.

Retiree health care valuations use a health care cost trend assumption (trend vector) that changes over the years. The trend vector used in this valuation begins with a near-term trend assumption and declines over a time to an ultimate trend rate. The near-term rates reflect the increases in the current cost of health care goods and services. The process of trending down to a lower ultimate trend relies on the theory that premiums will moderate over the long term, otherwise the healthcare sector would eventually consume the entire GDP. It is on this basis that we project premium rate increases will continue to exceed wage inflation for the next twelve years, but by less each year until leveling off at an ultimate rate, assumed to be 3.50% in this valuation.

While experience is often the best starting point for future costs, GRS does not rely on a group's experience in setting the near-term trend assumptions since trends vary significantly from year to year and are not credible for most groups. Therefore, professional judgment, trends from GRS' book of business and industry benchmarks (e.g., trend reports from various Pharmacy Benefit Management (PBM) organizations and national healthcare benefit consulting firms) are used in conjunction with a group's historical experience to establish the trend assumptions.

Year After Valuation	Health Care Trend Inflation Rates		
	Medical/Drug Pre 65	Medical/Drug Post 65	Dental/Vision
1	7.50%	6.25%	3.50%
2	7.25	6.00	3.50
3	6.75	5.75	3.50
4	6.50	5.50	3.50
5	6.00	5.25	3.50
6	5.75	5.00	3.50
7	5.25	4.75	3.50
8	5.00	4.50	3.50
9	4.50	4.25	3.50
10	4.25	4.00	3.50
11	3.75	3.75	3.50
12	3.50	3.50	3.50
13	3.50	3.50	3.50
14	3.50	3.50	3.50
15	3.50	3.50	3.50
16 +	3.50	3.50	3.50

Actuarial Disclosures

The premium rates used in this valuation were developed using proprietary Excel models which in James E. Pranschke's professional judgment provide initial projected costs which are consistent with the purposes of the valuation. We perform tests to ensure that the models, in their entirety, reasonably represent that which is intended to be modeled.

Aging factors used in the premium development models were developed based on information and data from a 2013 study commissioned by the Society of Actuaries entitled "Health Care Costs – From Birth to Death."

James E. Pranschke is a Member of the American Academy of Actuaries (MAAA) and meets the Qualification Standards of the American Academy of Actuaries to certify the per capita retiree health care rates previously shown.



James E. Pranschke, FSA, FCA, MAAA

SECTION C

SUMMARY OF BENEFITS

City of Trenton Retiree Health Care Plan Summary of the Benefit Provisions as of June 30, 2020

Leaving Employment as a Result of	Bargaining Unit	Hire Date	Point System	Eligibility for Benefit		Benefit Provided by Employer (A)			Post-6/30/2005 Retirees (B)	Retiree Share of Cost (C)		
				Age	Years of Service	Retiree	Spouse	Dependent (D)		Retiree	Spouse	Post-6/30/2005
Normal Retirement	TPOAM	Before 1/1/1996		60	10	All	All	All	Mirroring (eff 1/14/08)	None	None	R e f e r r e n c e
Normal Retirement	TPOAM	Before 1/1/1996		55	15	All	All	All	Mirroring (eff 1/14/08)	None	None	
Normal Retirement	TPOAM	Before 1/1/1996		50	25	All	All	All	Mirroring (eff 1/14/08)	None	None	
Normal Retirement	Non-Union	Before 1/1/1996		60	10	All	All	All	Mirroring	None	None	t o
Normal Retirement	Non-Union	Before 1/1/1996		55	15	All	All	All	Mirroring	None	None	
Normal Retirement	Non-Union	Before 1/1/1996		50	25	All	All	All	Mirroring	None	None	
Normal Retirement	TILA (Lieutenants)	Before 1/1/1996		Any	25	All	All	All	Mirroring (eff 7/07)	None	None	s c h e d u l e
Normal Retirement	MAP (Police)	Before 1/1/1996		Any	25	All	All	All	Mirroring	None	None	
Normal Retirement	IAFF (Fire)	Before 1/1/1996		Any	25	All	All	All	Mirroring	None	None	
Normal Retirement	TPOAM	Post 1/1/1996	80 points (age + service)		15	All	All	All	Mirroring	None	None	b e l o w
Normal Retirement	Non-Union	Post 1/1/1996	80 points (age + service)		15	All	All	All	Mirroring	None	None	
Normal Retirement	TPOAM	Post 6/30/12							HCSP*	None	None	
Normal Retirement	Non-Union	Post 6/30/12							HCSP*	None	None	
Normal Retirement	MAP/IAFF (Police/Fire)	Post 6/30/16							HCSP*	None	None	
Normal Retirement	TILA (Lieutenants)	Post 1/1/1996		55	20	All	All	All	Mirroring	None	None	b e l o w
Normal Retirement	MAP (Police)	Post 1/1/1996		55	20	All	All	All	Mirroring	None	None	
Normal Retirement	IAFF (Fire)	Post 1/1/1996		55	20	All	All	All	Mirroring	None	None	
Deferred Vested Termination						None	None	None				b e l o w
Non-Duty Disability						None	None	None				
Duty Disability						None	None	None				
Non-Duty Death-in-Service	All units			Any	Any		All for 5 years	All for 5 years			None	b e l o w
Duty Death-in-Service	All units			Any	Any		All for 5 years	All for 5 years			None	

- A** - All includes the following: Medical, prescription drugs, dental and vision. Dental and vision only until the age of 65. Life insurance is currently provided in the amount of \$10,000, older retirees have lesser amounts based on date of retirement.
 - B** - Employees, who retire(d) after 6/30/2005, except as noted otherwise, will have the same level of coverage as that provided to active employees.
 - C** - Schedule of premium sharing becomes effective for all active employees and retirees post-6/30/2005 is as follows: 80/20 cost share. For Medicare eligible retirees, premium sharing is offset by Medicare premiums paid by the retiree.
 - D** - No family continuation for all employee groups was revoked with the adoption of the 2010 Healthcare Act.
- * - Plan Closures: TPOAM, General, Non-Union: 6/30/2012. Police and Fire: 6/30/2016. Employees hired after these dates are in the HCSP. It was assumed that these members do not have access to the Retiree Health Care Plan.



City of Trenton Retiree Health Care Plan

Summary of Benefit Provisions as of June 30, 2020

Life Insurance:

Life Insurance is available upon retirement in the amount of \$10,000.

SECTION D

SUMMARY OF PARTICIPANT DATA

City of Trenton Retiree Health Care Plan
Active Members* as of June 30, 2020
by Age and Years of Service

Age	Years of Service to Valuation Date							Totals
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.
20-24	4							4
25-29	10	4						14
30-34	11	7	2					20
35-39	6	9	3	3				21
40-44	3	5	1	8	1			18
45-49	6	4	2	3	6	1		22
50-54	5	3	1	2	1	7		19
55-59	1	2	1		6	2	1	13
60-64		2	1	1	2	1		7
65 & Over		1	1	1				3
Totals	46	37	12	18	16	11	1	141

* Includes members eligible for future life insurance benefits only.

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

OPEB Group	Count	Age	Service
TPOAM	24	40.8 yrs.	7.5 yrs.
Non-Union	31	50.5	12.0
Water/WWTP	24	47.7	15.1
Fire	28	36.9	8.8
Police	34	39.6	11.4
Total	141	43.0	11.0

City of Trenton Retiree Health Care Plan Inactive Members as of June 30, 2020 by Age

Number of Retiree and Beneficiary Contracts

	Opt-Out/ Ineligible#	One-Person Coverage	Two-Person Coverage*	Total
Male	9	37	95	141
Female	7	53	9	69
Total	16	90	104	210

* Includes family coverage.

Includes retirees and beneficiaries with only non-medical coverage.

Age	Current Retirees with Medical Coverage					
	Number of Those Covered					
	TPOAM	Non-Union	Water/WWTP	Fire	Police	Total
0-44						
45-49				2		2
50-54			1	3	3	7
55-59	6	3		10	8	27
60-64	14	1	6	5	8	34
65-69	3	5	5	8	8	29
70-74	5	5	7	2	6	25
75-79	1	7	1	4	4	17
80-84	2	6	3	4	9	24
85-89	2	2	1	4	4	13
90-94	2	4		1	5	12
95 +	2			1	1	4
Totals	37	33	24	44	56	194

There are 0 terminated members eligible for deferred Plan benefits.

City of Trenton Retiree Health Care Plan Reported Financial Information (Market Value)

	June 30, 2019	June 30, 2020
Additions		
Contributions		
Employer	\$ 716,723	\$ 710,136
Nonemployer Contributing Entities	-	-
Active Employees	-	-
Other	-	-
Total Contributions	\$ 716,723	\$ 710,136
Investment Income		
Net Appreciation in Fair Value of Investments	\$ 342,116	\$ 133,347
Interest and Dividends	284,427	288,716
Less Investment Expense	(68,860)	(83,529)
Net Investment Income	\$ 557,683	\$ 338,534
Other	\$ 37	\$ -
Total Additions	\$ 1,274,443	\$ 1,048,670
Deductions		
Benefit payments, including refunds of employee contributions	\$ -	\$ -
OPEB Plan Administrative Expense	-	-
Other	371	833
Total Deductions	\$ 371	\$ 833
Net Increase in Net Position	\$ 1,274,072	\$ 1,047,837
Net Position Restricted for OPEB		
Beginning of Year (July 1)	\$ 10,336,899	\$ 11,610,971
End of Year (June 30)	\$ 11,610,971	\$ 12,658,808

SECTION E

ACTUARIAL COST METHOD AND ACTUARIAL ASSUMPTIONS

Actuarial Methods for City of Trenton Retiree Health Care Plan as of June 30, 2020

Actuarial Cost Method. Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an **Individual Entry-Age Actuarial Cost Method** having the following characteristics:

- (i) The annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement; and
- (ii) Each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

Actuarial gains (losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

Financing of Unfunded Actuarial Accrued Liabilities. Unfunded actuarial accrued liabilities (UAAL) (full funding credit if assets exceed liabilities) were amortized as a level dollar. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date and projected to the beginning of the fiscal year at the assumed rate of investment return.

Actuarial Value of Assets. The Actuarial Value of Assets is set equal to the reported market value of assets. Assets were allocated among the subgroups shown in this report in the following proportion: 47% to the Water/WWTP subgroup, then the remaining 53% of the assets in proportion to each group's Actuarial Accrued Liability on the valuation date.

Amortization Factors: The following amortization factors were used in developing the Actuarially Determined Contribution for the fiscal years shown:

	Fiscal Year Ending June 30,	
	2022	2023
Level Dollar	10.9721	10.5745

Actuarial Assumptions for City of Trenton Retiree Health Care Plan (MERS) as of June 30, 2020

All assumptions are expectations of future experience, not market measures. The rationale for the rates of merit and longevity salary increase, base wage inflation, rates of mortality, early retirement rates, rates of separation from active membership, and disability rates used in this valuation is included in the MERS five-year experience study for the period January 1, 2014 to December 31, 2018, issued February 14, 2020. These assumptions were first used in the June 30, 2020 OPEB Funding Valuation.

The rate of investment return was 5.75% a year, compounded annually net after investment expenses.

The rates of price inflation are not specifically used for this valuation. However, a rate of price inflation of 2.50% would be consistent with other assumptions in this report.

The rates of salary increase used for individual members are in accordance with the following table. This assumption is used to project a member's current salary to the salaries upon which future contributions will be based.

Percentage Increase in Salary at Sample Years of Service							
Sample Years of Service	Base (Wage Inflation)	Merit and Longevity	Total Percentage Increase in Pay	Sample Years of Service	Base (Wage Inflation)	Merit and Longevity	Total Percentage Increase in Pay
0	3.00 %	6.70 %	9.70 %	21	3.00 %	0.60 %	3.60 %
1	3.00	4.60	7.60	22	3.00	0.50	3.50
2	3.00	3.20	6.20	23	3.00	0.40	3.40
3	3.00	2.70	5.70	24	3.00	0.40	3.40
4	3.00	2.30	5.30	25	3.00	0.40	3.40
5	3.00	1.90	4.90	26	3.00	0.30	3.30
6	3.00	1.70	4.70	27	3.00	0.30	3.30
7	3.00	1.30	4.30	28	3.00	0.30	3.30
8	3.00	1.20	4.20	29	3.00	0.30	3.30
9	3.00	1.20	4.20	30	3.00	0.20	3.20
10	3.00	1.10	4.10	31	3.00	0.20	3.20
11	3.00	1.10	4.10	32	3.00	0.20	3.20
12	3.00	0.90	3.90	33	3.00	0.20	3.20
13	3.00	0.90	3.90	34	3.00	0.20	3.20
14	3.00	0.80	3.80	35	3.00	0.10	3.10
15	3.00	0.70	3.70	36	3.00	0.10	3.10
16	3.00	0.70	3.70	37	3.00	0.10	3.10
17	3.00	0.60	3.60	38	3.00	0.10	3.10
18	3.00	0.60	3.60	39	3.00	0.10	3.10
19	3.00	0.60	3.60	40 and Over	3.00	0.00	3.00
20	3.00	0.60	3.60				

Actuarial Assumptions for City of Trenton Retiree Health Care Plan (MERS) as of June 30, 2020

The rates of mortality used for individual members are based upon the sex distinct Pub-2010 tables, as published by the Society of Actuaries, and include a margin for future mortality improvements projected using a fully generational improvement scale. The tables used were as follows:

- **Healthy Pre-Retirement Mortality:** Sex distinct Pub-2010 General Employees table without adjustment. The base year is 2010 and future mortality improvements are assumed each year using scale MP-2019, as published by the Society of Actuaries. Ninety percent (90%) of active member deaths are assumed to be non-duty deaths and 10% of the deaths are assumed to be duty related.
- **Healthy Post-Retirement Mortality:** Sex distinct Pub-2010 General Healthy Retiree tables scaled by a factor of 106%. The base year is 2010 and future mortality improvements are assumed each year using scale MP-2019, as published by the Society of Actuaries.
- **Disability Retirement Mortality:** Sex distinct PubNS-2010 Disabled tables without adjustment. The base year is 2010 and future mortality improvements are assumed each year using scale MP-2019, as published by the Society of Actuaries.

Note that the Pub-2010 tables do not include rates at all ages. For purposes of selecting mortality rates that are not otherwise published, we use the corresponding Employee or Healthy Retiree rates as applicable.

The life expectancies and mortality rates projected for employees are shown below for selected ages, based on retirements in 2020. Retirements in future years will reflect improvements in life expectancy:

Age	Expected Years of Life Remaining		Mortality Rates	
	Male	Female	Male	Female
20	70.01	72.73	0.04%	0.01%
25	64.72	67.41	0.03	0.01
30	59.44	62.08	0.05	0.02
35	54.21	56.79	0.07	0.03
40	49.03	51.53	0.08	0.04
45	43.86	46.29	0.10	0.06
50	38.73	41.07	0.14	0.08
55	33.65	35.90	0.21	0.13
60	28.69	30.81	0.33	0.20
65	23.87	25.82	0.47	0.29
70	19.15	20.91	0.66	0.44
75	14.52	16.11	1.00	0.74
80	10.00	11.47	1.59	1.25
85	6.89	8.03	8.02	5.95
90	4.80	5.57	13.85	11.03

Actuarial Assumptions for City of Trenton Retiree Health Care Plan (MERS) as of June 30, 2020

The life expectancies and mortality rates projected for non-disabled retirees are shown below for selected ages, based on retirements in 2020. Retirements in future years will reflect improvements in life expectancy:

Age	Expected Years of Life Remaining		Mortality Rates	
	Male	Female	Male	Female
20	66.74	70.06	0.04%	0.02%
25	61.37	64.66	0.04	0.01
30	56.01	59.26	0.05	0.02
35	50.70	53.90	0.07	0.03
40	45.43	48.56	0.09	0.04
45	40.18	43.24	0.11	0.06
50	34.97	37.95	0.30	0.23
55	30.09	32.99	0.45	0.32
60	25.41	28.15	0.68	0.43
65	20.95	23.44	0.98	0.63
70	16.73	18.92	1.51	1.02
75	12.82	14.68	2.58	1.82
80	9.39	10.90	4.65	3.36
85	6.61	7.73	8.50	6.30
90	4.57	5.33	14.68	11.69

The life expectancies and mortality rates projected for disabled retirees are shown below for selected ages, based on retirements in 2020. Retirements in future years will reflect improvements in life expectancy.

Age	Expected Years of Life Remaining		Mortality Rates	
	Male	Female	Male	Female
20	52.22	55.97	0.43%	0.26%
25	47.40	50.80	0.33	0.20
30	42.57	45.69	0.49	0.35
35	38.10	40.96	0.65	0.54
40	33.88	36.60	0.80	0.73
45	29.81	32.48	1.02	0.97
50	25.97	28.64	1.50	1.43
55	22.51	25.22	2.07	1.83
60	19.44	22.07	2.61	2.08
65	16.59	18.89	3.08	2.18
70	13.80	15.55	3.65	2.59
75	11.04	12.28	4.73	3.66
80	8.48	9.37	6.76	5.66
85	6.31	7.02	10.10	8.94
90	4.57	5.26	15.34	13.12

Actuarial Assumptions for City of Trenton Retiree Health Care Plan (MERS) as of June 30, 2020

Retirement Rates

A schedule of retirement rates is used to measure the probability of eligible members retiring during the next year. Certain retirement service amounts (normal retirement) or age (early reduced pension retirement) may not apply, depending on the benefit age of first eligibility.

Normal Retirement - Unreduced Pension Benefit Service Based Retirement Rates

Sample Years of Service	Percent of Eligible Active Members Retiring within Next Year [#]	Sample Years of Service	Percent of Eligible Active Members Retiring within Next Year [#]
Under 5	15.00 %	23	26.00 %
5	15.00	24	30.00
6	15.00	25	34.00
7	15.00	26	25.00
8	15.00	27	25.00
9	15.00	28	25.00
10	20.00	29	25.00
11	20.00	30	25.00
12	20.00	31	28.00
13	20.00	32	28.00
14	20.00	33	28.00
15	20.00	34	28.00
16	20.00	35	25.00
17	20.00	36	25.00
18	20.00	37	25.00
19	20.00	38	25.00
20	20.00	39	25.00
21	22.00	40 and Over	25.00
22	24.00		

All members who reach eligibility for normal retirement pension benefits before reaching eligibility for retiree health benefits are assumed to retire at the rate of 3% per year during the period when they are not eligible for health.

Rates of retirement are set to 100% beginning at age 85.

Actuarial Assumptions for City of Trenton Retiree Health Care Plan (MERS) as of June 30, 2020

Early Retirement - Reduced Pension Benefit

Retirement Ages	Percent of Eligible Active Members Retiring within Next Year
50	4.00 %
51	4.00
52	4.00
53	4.00
54	4.00
55	4.00
56	4.00
57	4.00
58	4.00
59	4.00

In the case a member's eligibility for early reduced pension retirement precedes eligibility for OPEB retirement, the percent of eligible active members retiring within the next year is as described in the table above or 3%, whichever is smaller.

Actuarial Assumptions for City of Trenton Retiree Health Care Plan (MERS) as of June 30, 2020

Rates of separation from active membership are used to estimate the number of employees at each age that are expected to terminate employment before qualifying for retirement benefits. The rates of separation from active membership do not apply to members eligible to retire, and do not include separation on account of death or disability. The assumed rates of separation applied in the current valuation are based on years of service and different rates apply to public safety and all other groups. Sample rates of separation from active employment are shown below.

Sample Years of Service	Percent of Active Members Withdrawing Within the Next Year	
	Public Safety	All Others
0	13.90 %	23.40 %
1	11.60	19.50
2	9.40	15.80
3	7.40	12.50
4	6.10	10.30
5	4.90	8.30
6	4.30	7.20
7	3.90	6.60
8	3.60	6.00
9	3.40	5.70
10	3.20	5.40
11	3.10	5.20
12	2.80	4.70
13	2.70	4.50
14	2.50	4.20
15	2.40	4.00
16	2.30	3.90
17	2.20	3.70
18	2.00	3.40
19	1.90	3.20
20	1.80	3.10
21	1.80	3.00
22	1.70	2.80
23	1.70	2.80
24	1.60	2.70
25 and Over	1.50	2.60

Actuarial Assumptions for City of Trenton Retiree Health Care Plan (MERS) as of June 30, 2020

Disability Rates

Disability rates are used in the valuation to estimate the incidence of member disability in future years. The assumed rates of disablement at various ages are shown below:

Sample Ages	Percent Becoming Disabled within the Next Year
20	0.02%
25	0.02
30	0.02
35	0.05
40	0.08
45	0.20
50	0.29
55	0.38
60	0.39
65	0.39

80% of the disabilities are assumed to be non-duty and 20% of the disabilities are assumed to be duty related. For those plans which have adopted disability provision D-2, for pension benefit purposes, 40% of the disabilities are assumed to be non-duty and 60% are assumed to be duty related.

Actuarial Assumptions for City of Trenton Retiree Health Care Plan (ACT 345) as of June 30, 2020

The actuarial assumptions for ACT 345 participants in this report were based upon the results of an Experience Study for the City of Trenton Fire and Police Retirement System covering the period July 1, 2011 through June 30, 2016. A report dated April 3, 2017 presented the results of the Experience Study. The actuarial assumptions represent estimates of future experience, not market measures.

The rate of investment return was 5.75% a year, compounded annually net after investment expenses.

The rate of price inflation is not specifically used for this valuation. However, a rate of price inflation of 2.50% would be consistent with other assumptions in this report.

The rates of salary increase used for individual members are in accordance with the following table. This assumption is used to project a member's current salary to the salaries upon which benefit amounts will be based.

Years of Service	% Increase in Salary at Sample Ages		
	Merit & Seniority	Base (Economic)	Increase Next Year
1	6.00%	3.00%	9.00%
2	5.25%	3.00%	8.25%
3	4.50%	3.00%	7.50%
4	3.75%	3.00%	6.75%
5	3.00%	3.00%	6.00%
10	1.20%	3.00%	4.20%
15	0.68%	3.00%	3.68%
20	0.30%	3.00%	3.30%
25	0.15%	3.00%	3.15%
30	0.15%	3.00%	3.15%
Ref	144	0.03	

Actuarial Assumptions for City of Trenton Retiree Health Care Plan (ACT 345) as of June 30, 2020

Healthy Life Post-Retirement Mortality Table:

The RP-2014 Healthy Annuitant Generational Mortality Tables, with blue-collar adjustments and extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale. A base year of 2006 with future mortality improvements assumed each year using scale MP-2016. This assumption was first used for the June 30, 2016 valuation. Sample values follow:

Sample Ages	Probability of Dying Next Year		Future Life Expectancy (Years)	
	Men	Women	Men	Women
55	0.5821 %	0.4094 %	28.89	31.76
60	0.8538	0.6124	24.32	27.02
65	1.2996	0.8985	20.02	22.50
70	1.9847	1.3833	16.05	18.22
75	3.1395	2.2732	12.43	14.24
80	5.2051	3.8778	9.24	10.70

Based on retirements in 2020. Retirements in future years will reflect improvements in life expectancy.

Healthy Life Pre-Retirement Mortality Table:

The RP-2014 Employee Generational Mortality Tables, with blue-collar adjustments and extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale. A base year of 2006 with future mortality improvements assumed each year using scale MP-2016. This assumption was first used for the June 30, 2016 valuation. Sample values follow:

Sample Ages	Probability of Dying Next Year	
	Men	Women
35	0.0706 %	0.0342 %
40	0.0831	0.0481
45	0.1218	0.0728
50	0.2080	0.1176
55	0.3501	0.1908
60	0.6126	0.2924

Based on decrement in 2020. Decrements in future years will reflect improvements in life expectancy.

Actuarial Assumptions for City of Trenton Retiree Health Care Plan (ACT 345) as of June 30, 2020

Disabled Retirement Mortality Table:

The RP-2014 Disabled Mortality Tables, extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale. A base year of 2006 with future mortality improvements assumed each year using scale MP-2016. This assumption was first used for the June 30, 2016 valuation. Sample values follow:

Sample Ages	Probability of Dying Next Year		Future Life Expectancy (Years)	
	Men	Women	Men	Women
55	2.2678 %	1.4729 %	21.69	25.44
60	2.6862	1.8152	18.60	21.84
65	3.2642	2.1481	15.67	18.36
70	4.0674	2.7935	12.87	14.96
75	5.4094	4.0619	10.22	11.78
80	7.6899	6.2017	7.81	9.01

Based on retirements in 2020. Retirements in future years will reflect improvements in life expectancy.

The rates of retirement used to measure the probability of eligible members retiring during the next year were as follows:

Members Hired before July 1, 1996		Members Hired after July 1, 1996	
Service	Percent	Age	Percent
25	30%	55	30%
26	30%	56	30%
27	25%	57	30%
28	25%	58	30%
29	25%	59	30%
30	25%	60 & Up	100%
31	25%	Ref	1560
32	55%		
33	55%		
34	55%		
35	55%		
36	55%		
37	55%		
38	55%		
39	55%		
40	55%		
41	55%		
42 & Up	100%		
Ref.	1351		

Actuarial Assumptions for City of Trenton Retiree Health Care Plan (ACT 345) as of June 30, 2020

Rates of separation from active membership were as shown below (rates do not apply to members eligible to retire and do not include separation on account of death or disability). This assumption measures the probabilities of members remaining in employment.

Age	Years of Service	% of Active Members Separating within Next Year
ALL	0	5.00%
	1	4.00%
	2	3.00%
	3	2.00%
	4	1.50%
35	5 & Over	1.21%
40		0.44%
45		0.44%
50		0.44%
55		0.44%
60		0.44%
65		0.44%
Ref.		1061 285

Rates of disability were as follows:

Age	% of Active Members Becoming Disabled within Next Year	
	Male	Female
20	0.08%	0.10%
25	0.08%	0.10%
30	0.08%	0.10%
35	0.08%	0.10%
40	0.20%	0.36%
45	0.27%	0.41%
50	0.49%	0.57%
55	0.89%	0.77%
Ref.	9	10

Miscellaneous and Technical Assumptions for City of Trenton Retiree Health Care Plan (MERS and Act 345) as of June 30, 2020

Administrative Expenses	No explicit assumption has been made for administrative expenses.
Decrement Operation	MERS: Disability and withdrawal do not operate during retirement eligibility. ACT 345: Disability does not operate during retirement eligibility.
Decrement Timing	Decrements of all types are assumed to occur mid-year.
Eligibility Testing	Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
Incidence of Contributions	Contributions are assumed to be received continuously throughout the year based upon the computed contribution in this report.
Marriage Assumption	MERS: 80% of males and 80% of females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses for active member valuation purposes. ACT 345: 100% of males and 100% of females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses for active member valuation purposes.
Medicare Coverage	Assumed to be available for all covered employees on attainment of age 65. Disabled retirees were assumed to be eligible for Medicare coverage at age 65.
Health Care Coverage at Retirement	The table below shows the assumed portion of future retirees electing one-person or two-person/family coverage, or opting out of coverage entirely.

	One-Person	Two-Person/Family		Opt-Out
		Electing	Continuing	
Male	20%	80%	100%	0%
Female	20%	80%	100%	0%

APPENDIX

Projections

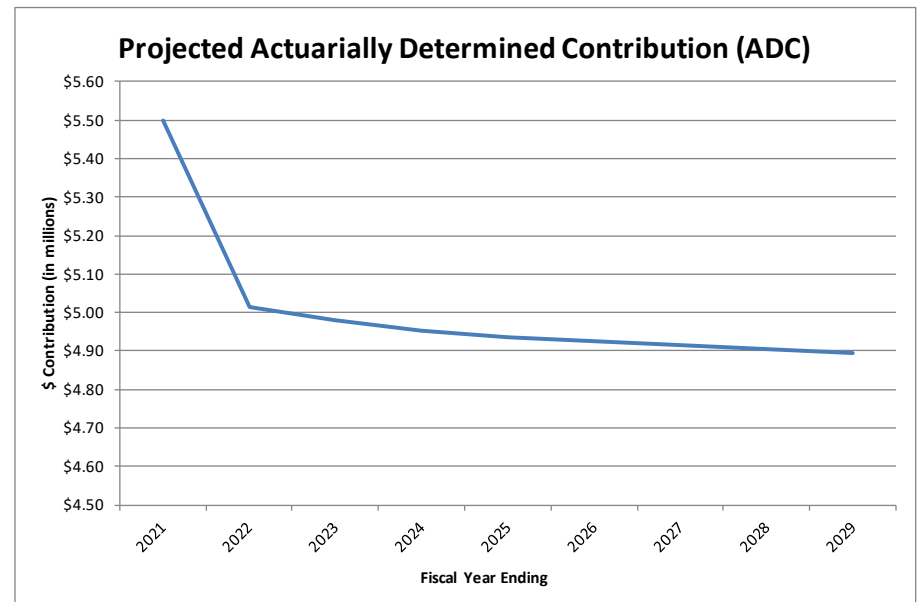
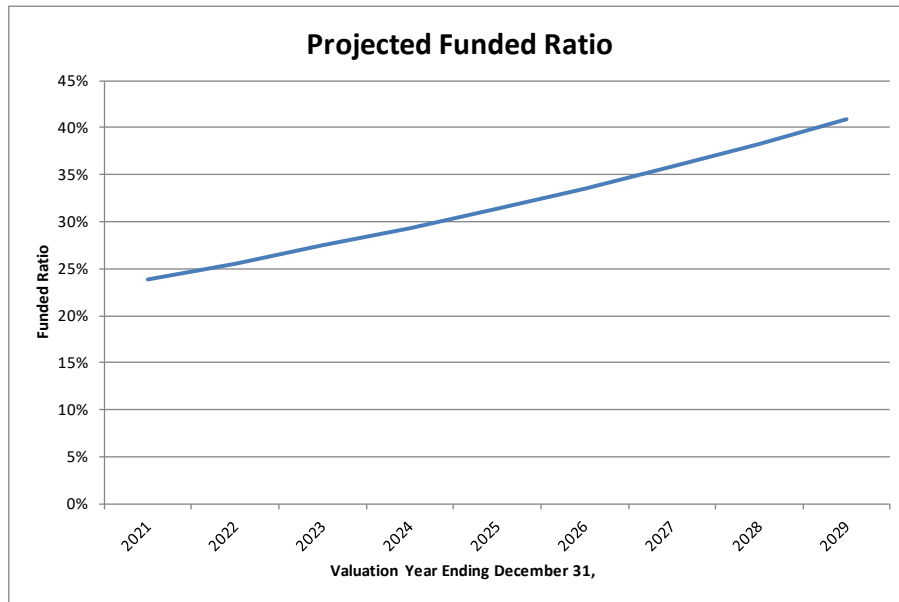
The Appendix shows projections of the plan's funded ratio and Actuarially Determined Contributions (ADC) under the actuarial assumptions used in the June 30, 2020 valuation.

The projection schedule provided in this report is based on the following assumptions:

1. The City contributes the Actuarially Determined Contribution for the Water/WWTP group annually;
2. The City contributes the pay-go cost (estimated premiums paid for retirees) for all other groups annually;
3. The City contributes an additional \$50,000 annually through the fiscal year ending June 30, 2023;
4. The City will be willing and able to afford the combined Actuarially Determined Contribution and pay-go cost as discussed in items 1 and 2 above; and
5. Contributions and benefit payments occur halfway through the year.

Fiscal Year	AAL End of Year	Asset Value EOY	Unfunded Liability		Actuarially Determined Contribution
	(EOY)		(EOY)	Funded Percentage	
	(a)	(b)	(c) = (a) - (b)	(d) = (b) / (a)	
7/1/2019 - 6/30/2020	\$ 57,826,500	\$ 12,658,808	\$45,167,692	21.9%	\$5,527,783
7/1/2020 - 6/30/2021	58,970,713	14,052,151	44,918,562	23.8%	5,498,513
7/1/2021 - 6/30/2022	59,964,433	15,327,292	44,637,141	25.6%	5,012,598
7/1/2022 - 6/30/2023	60,779,844	16,666,357	44,113,487	27.4%	4,979,477
7/1/2023 - 6/30/2024	61,464,092	18,021,218	43,442,874	29.3%	4,953,968
7/1/2024 - 6/30/2025	62,053,864	19,446,182	42,607,682	31.3%	4,937,029
7/1/2025 - 6/30/2026	62,528,696	20,947,425	41,581,271	33.5%	4,925,997
7/1/2026 - 6/30/2027	62,930,267	22,530,223	40,400,044	35.8%	4,915,563
7/1/2027 - 6/30/2028	63,264,808	24,199,296	39,065,512	38.3%	4,903,373
7/1/2028 - 6/30/2029	63,561,465	25,960,041	37,601,424	40.8%	4,893,518

Projections



Glossary

Accrued Service. The service credited under the plan which was rendered before the date of the actuarial valuation.

Actuarial Accrued Liability. The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as “accrued liability” or “past service liability.”

Actuarial Assumptions. Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

Actuarially Determined Contribution. The Actuarially Determined Contribution is the normal cost plus the portion of the unfunded actuarial accrued liability to be amortized in the current period. The Actuarially Determined Contribution is an amount that is actuarially determined in accordance with the requirements so that, if paid on an ongoing basis, it would be expected to provide sufficient resources to fund both the normal cost for each year and the amortized unfunded actuarial accrued liability.

Actuarial Cost Method. A mathematical budgeting procedure for allocating the dollar amount of the “actuarial present value of future plan benefits” between the actuarial present value of future normal cost and the actuarial accrued liability. Sometimes referred to as the “actuarial funding method.”

Actuarial Equivalent. A single amount or series of amounts of equal value to another single amount or series of amounts, computed on the basis of the rate(s) of interest and mortality tables used by the plan.

Actuarial Present Value. The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Amortization. Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.

Governmental Accounting Standards Board (GASB). GASB is the private, nonpartisan, nonprofit organization that works to create and improve the rules U.S. state and local governments follow when accounting for their finances and reporting them to the public.

Implicit Rate Subsidy. It is common practice for employers to allow retirees to continue in the employer’s group health insurance plan (which also covers active employees), often charging the retiree some portion of the premium charged for active employees. Under the theory that retirees have higher utilization of services, the difference between the true cost of providing retiree coverage and what the retiree is being charged is known as the implicit rate subsidy.

Glossary

Medical Trend Rate (Health Care Inflation). The increase in the cost of providing health care benefits over time. Trend includes such elements as pure price inflation, changes in utilization, advances in medical technology, and cost shifting.

Normal Cost. The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as “current service cost.” Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.

Other Postemployment Benefits (OPEB). OPEB are postemployment benefits other than pensions. OPEB generally takes the form of health insurance, dental, vision, prescription drugs, life insurance or other health care benefits.

Reserve Account. An account used to indicate that funds have been set aside for a specific purpose and are not generally available for other uses.

Unfunded Actuarial Accrued Liability. The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as “unfunded accrued liability.”

Valuation Assets. The value of current plan assets recognized for valuation purposes.