Milliman Financial Reporting Valuation

Milliman

BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION PENSION FUND

GASB 67 and 68 DISCLOSURE
Fiscal Year: January 1, 2016 to December 31, 2016

Prepared by

Robert A. Behar, FSA, MAAA, EA
Principal and Consulting Actuary

Timothy J. Herman, FSA, MAAA, EA
Principal and Consulting Actuary

Milliman, Inc.
71 S. Wacker Drive, 31st Floor
Chicago, IL 60606 USA
Tel +1 312 726 0677
Fax +1 312 499 5695
milliman.com

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Certification

Actuarial computations presented in this report under Statements No. 67 and 68 of the Governmental Accounting Standards Board are for purposes of assisting the Bloomington Fire Department Relief Association in fulfilling its financial accounting requirements. No attempt is being made to offer any accounting opinion or advice. This report is for fiscal year January 1, 2016 to December 31, 2016. The reporting date for determining plan assets and obligations is December 31, 2016. The calculations enclosed in this report have been made on a basis consistent with our understanding of the plan provisions. Determinations for purposes other than meeting financial reporting requirements may be significantly different than the results contained in this report. Accordingly, additional determinations may be needed for other purposes, such as judging benefit security or meeting employer funding requirements.

In preparing this report, we relied, without audit, on information as of January 1, 2017 and December 31, 2016 furnished by the Bloomington Fire Department Relief Association. This information includes, but is not limited to, statutory provisions, member census data, and financial information. The membership as of January 1, 2017 includes 125 active participants, 14 terminated vested and other inactive participants, and 194 retirees and beneficiaries. Please see Milliman's funding valuation report dated February 16, 2017 for more information on the plan's participant group as of January 1, 2017 as well as a summary of the plan provisions and a summary of the actuarial methods and assumptions used for funding purposes.

We performed a limited review of the census and financial information used directly in our analysis and have found them to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

We hereby certify that, to the best of our knowledge, this report, including all costs and liabilities based on actuarial assumptions and methods, is complete and accurate and determined in conformance with generally recognized and accepted actuarial principles and practices, which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Guides to Professional Conduct, amplifying Opinions and supporting Recommendations of the American Academy of Actuaries.

Each of the assumptions used in this valuation with the exception of those set by law was set based on industry standard published tables and data, the particular characteristics of the plan, relevant information from the plan sponsor or other sources about future expectations, and our professional judgment regarding future plan experience. We believe the assumptions are reasonable for the contingencies they are measuring, and are not anticipated to produce significant cumulative actuarial gains or losses over the measurement period.

This valuation report is only an estimate of the Plan's financial condition as of a single date. It can neither predict the Plan's future condition nor guarantee future financial soundness. Actuarial valuations do not affect the ultimate cost of Plan benefits, only the timing of Plan contributions. While the valuation is based on an array of individually reasonable assumptions, other assumption sets may also be reasonable and valuation results based on those assumptions would be different. No one set of assumptions is uniquely correct. Determining results using alternative assumptions is outside the scope of our engagement.

Certification

Future actuarial measurements may differ significantly from the current measurements presented in this report due to factors such as, but not limited to, 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. Due to the limited scope of the actuarial assignment, we did not perform an analysis of the potential range of such future measurements.

Milliman's work is prepared solely for the internal use and benefit of the Bloomington Fire Department Relief Association. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exceptions: (a) the Plan Sponsor may provide a copy of Milliman's work, in its entirety, to the Plan Sponsor's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the Fund; and (b) the Plan Sponsor may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their specific needs.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

The signing actuaries are independent of the plan sponsor. We are not aware of any relationship that would impair the objectivity of our work.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and has been prepared in accordance with generally recognized accepted actuarial principles and practices. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

Robert A. Behar

Robert A. Behar, FSA, MAAA, EA
Principal and Consulting Actuary

Timothy J. Herman

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Overview of GASB 67 and GASB 68

The Governmental Accounting Standards Board (GASB) released new accounting standards for public pension plans and participating employers in 2012. These standards, GASB Statements No. 67 and 68, have substantially revised the accounting requirements previously mandated under GASB Statements No. 25 and 27. The most notable change is the distinct separation of funding from financial reporting. The Annual Required Contribution (ARC) has been eliminated under GASB 67 and 68 and is no longer relevant for financial reporting purposes. As a result, plan sponsors have been encouraged to establish a formal funding policy that is separate from financial reporting calculations.

GASB 67 applies to financial reporting for public pension plans and is required to be implemented for plan fiscal years beginning after June 15, 2013. Note that a plan's fiscal year might not be the same as the employer's fiscal year. Even if the plan does not issue standalone financial statements, but rather is considered a pension trust fund of a government, it is subject to GASB 67. Under GASB 67, enhancements to the financial statement disclosures are required, along with certain required supplementary information.

GASB 68 governs the specifics of accounting for public pension plan obligations for participating employers and is required to be implemented for employer fiscal years beginning after June 15, 2014. GASB 68 requires a liability for pension obligations, known as the Net Pension Liability, to be recognized on the balance sheets of participating employers. Changes in the Net Pension Liability will be immediately recognized as Pension Expense on the income statement or reported as deferred inflows/outflows of resources depending on the nature of the change.

Executive Summary

Relationship Between Valuation Date, Measurement Date, and Reporting Date

The Valuation Date is January 1, 2017. This is the date as of which the actuarial valuation is performed. The Measurement Date is December 31, 2016. This is the date as of which the net pension liability is determined. The Reporting Date is December 31, 2016. This is the plan's and/or employer's fiscal year ending date.

Significant Changes

There have been no significant changes between the valuation date and fiscal year end.

Schedule of Employer Contributions

Fiscal Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution[1]	Contribution Deficiency (Excess)	Covered Payroll[2]	Contribution as a % of Covered Payroll
2007	($520,335)	$517,023	($1,037,358)	$8,672,256	5.96%
2008	(150,559)	439,902	(590,461)	9,970,800	4.41%
2009	3,451,507	372,096	3,079,411	10,235,786	3.64%
2010	3,316,111	3,625,942	(309,831)	9,790,704	37.03%
2011	2,105,542	3,486,392	(1,380,850)	10,059,924	34.66%
2012	2,199,801	2,214,207	(14,406)	9,069,840	24.41%
2013	3,016,121	2,312,826	703,295	9,668,988	23.92%
2014	1,630,173	3,170,255	(1,540,082)	10,110,384	31.36%
2015	1,396,485	1,715,281	(318,796)	10,773,375	15.92%
2016	1,552,692	1,469,482	83,210	11,003,580	13.35%

[1] Includes both City of Bloomington and State of Minnesota contributions

[2] Annual covered payroll is based on the assumption that each active member earns the salary rate of the highest paid non-officer police officer in the City of Bloomington. Because all active plan members are volunteers, there is no actual payroll.

Actuarial Methods and Assumptions Used for Funding Policy

The following actuarial methods and assumptions were used in the January 1, 2016 funding valuation. Please see the valuation report dated February 26, 2016 for further details.

Valuation Timing	Actuarially determined contribution rates are calculated as of January 1 prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry Age Normal
Amortization Method	For the first plan year in which current assets are less than the actuarial accrued liability, an initial base is established equal to the accrued liability initial unfunded actuarial accrued liability (UAAL) and is amortized as a level dollar amount over 20 years. For subsequent years in which the UAAL exceeds $0, bases will be established for actuarial losses, assumption changes, and plan amendments to be amortized over 20 years as a level dollar amount from the date of the establishment of the base and will be incorporated into the required contribution development. Otherwise, 10% of the excess of current assets over the actuarial accrued liability is treated as a supplemental credit and any amortization bases that existed prior to the plan's current assets exceeding the actuarial accrued liabilities are considered fully amortized.[1]
Asset Valuation Method	Market Value
Inflation/Salary Increases	4.00%
Investment Rate of Return	6.00%
Cost of Living Adjustments	4.00%
Retirement Age	50 with 20 years of service
Turnover	See the January 1, 2016 Actuarial Valuation
Mortality	Pre-retirement: RP 2000 non-annuitant table with white collar adjustment, generationally projected using Scale AA, and set back two years for males and females. Post-retirement: RP 2000 annuitant mortality table with white collar adjustment, generationally projected using Scale AA for males and females. Post-disability: RP 2000 non-annuitant mortality table with white collar adjustment, set forward eight years for males and females.

[1] Per Minnesota Session Laws 1994, Regular Session, Chapter 541, Section 2. It is Milliman's understanding that this Bloomington special law provision remains valid.

Statement of Fiduciary Net Position

	December 31, 2015	December 31, 2016
Assets		
Cash and cash equivalents	$22,320	$15,217
Receivables and prepaid expenses:		
Total receivables	0	0
Investments:		
Total investments	148,212,889	155,697,150
Total assets	148,235,209	155,712,367
Liabilities		
Accrued expenses and benefits payable	406,583	436,965
Total liabilities	406,583	436,965
Net position restricted for pensions	$147,828,626	$155,275,402

Statement of Changes in Fiduciary Net Position

	December 31, 2016
Additions	
State of Minnesota contributions	$563,627
City of Bloomington contributions	905,855
Total contributions	1,469,482
Investment income (loss):	
Dividends	148,068
Net increase in fair value of investments	11,122,800
Less investment expenses:	
Direct investment expense	137,495
Net investment income	11,133,373
Total additions	12,602,855
Deductions	
Service benefits	5,046,951
Administrative expenses	109,128
Total deductions	5,156,079
Net increase (decrease)	7,446,776
Net position restricted for pensions	
Beginning of year (December 31, 2015)	147,828,626
End of year (December 31, 2016)	$155,275,402

Long-Term Expected Rate of Return

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's investment consulting practice as of January 1, 2017.

Asset Class	Long-Term Expected Geometric Real Rate of Return
Cash	0.44%
Core Fixed Income	1.54%
Broad US Equities	3.73%
Large Cap US Equities	3.54%
Developed Foreign Equities	4.15%

Depletion Date Projection

GASB 67 and 68 generally require that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 67 and 68 will often require that the actuary perform complex projections of future benefit payments and asset values. GASB 67 and 68 (paragraph 29) do allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

The following circumstances justify an alternative evaluation of sufficiency for the Bloomington Fire Department Relief Association:

- The contributions from the City of Bloomington and State of Minnesota have a history of meeting at least 100% of the Actuarially Determined Contribution (previously termed the Annual Required Contribution).

- The plan is currently over 100% funded and will contribute a portion of the normal cost plus expenses even if over 100% funded.

- GASB 67 and 68 specify that the projections regarding future solvency assume that plan assets earn the assumed rate of return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan's funded position

Based on these circumstances, it is our professional opinion that the detailed depletion date projections outlined in GASB 67 and 68 will show that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

Net Pension Liability

Net Pension Liability	December 31, 2015	December 31, 2016
Total pension liability	$132,836,377	$139,574,319
Fiduciary net position	147,828,626	155,275,402
Net pension liability	(14,992,249)	(15,701,083)
Fiduciary net position as a % of total pension liability	111.29%	111.25%
Covered payroll[1]	10,773,375	11,003,580
Net pension liability as a % of covered payroll	-139.16%	-142.69%

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below.

Discount Rate

Discount rate	6.00%	6.00%
Long-term expected rate of return, net of investment expense	6.00%	6.00%
Municipal bond rate	N/A	N/A

The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Other Key Actuarial Assumptions

The plan has not had a formal actuarial experience study performed.

Valuation date	January 1, 2016	January 1, 2017
Measurement date	December 31, 2015	December 31, 2016
Actuarial cost method	Entry Age Normal	Entry Age Normal
Salary increases including inflation	4.00%	4.00%
Mortality	Pre-Retirement: RP-2000 Non-Annuitant Mortality with white collar adjustment, generationally projection using Scale AA and set back two years for males and females. Post-Retirement: RP-2000 Annuitant Mortality with white collar adjustment, generationally projection using Scale AA for males and females. Post-Disability: RP-2000 Non-Annuitant Mortality with white collar adjustmen and set forward eight years for males and females.	Pre-Retirement: RP-2000 Non-Annuitant Mortality with white collar adjustment, generationally projection using Scale AA and set back two years for males and females. Post-Retirement: RP-2000 Annuitant Mortality with white collar adjustment, generationally projection using Scale AA for males and females. Post-Disability: RP-2000 Non-Annuitant Mortality with white collar adjustmen and set forward eight years for males and females.

[1] Annual covered payroll is based on the assumption that each active member earns the salary rate of the highest paid non-officer police officer in the City of Bloomington. Because all active plan members are volunteers, there is no actual payroll.

Changes in Net Pension Liability

Changes in Net Pension Liability	Increase (Decrease) Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of December 31, 2015	$132,836,377	$147,828,626	($14,992,249)
Changes for the year:			
Service cost	2,955,252		2,955,252
Interest on total pension liability	7,998,295		7,998,295
Effect of plan changes	0		0
Effect of economic/demographic gains or losses	831,346		831,346
Effect of assumptions changes or inputs	0		0
Benefit payments	(5,046,951)	(5,046,951)	0
Employer contributions		1,469,482	(1,469,482)
Member contributions		0	0
Net investment income		11,133,373	(11,133,373)
Administrative expenses		(109,128)	109,128
Balances as of December 31, 2016	139,574,319	155,275,402	(15,701,083)

Sensitivity Analysis

The following presents the net pension liability of the Bloomington Fire Department Relief Association, calculated using the discount rate of 6.00%, as well as what the Bloomington Fire Department Relief Association's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.00%) or 1 percentage point higher (7.00%) than the current rate.

	1% Decrease 5.00%	Current Discount Rate 6.00%	1% Increase 7.00%
Total pension liability	$163,271,689	$139,574,319	$120,909,170
Fiduciary net position	155,275,402	155,275,402	155,275,402
Net pension liability	7,996,287	(15,701,083)	(34,366,232)

Schedule of Changes in Net Pension Liability and Related Ratios
(in 1,000s)

	Fiscal Year Ending December 31		
	2016	**2015**	**2014**
Total Pension Liability			
Service cost	$2,955	$3,142	$3,048
Interest on total pension liability	7,998	8,072	7,444
Effect of plan changes	0	0	0
Effect of economic/demographic gains or losses	831	(7,292)	(1,567)
Effect of assumption changes or inputs	0	0	0
Benefit payments	(5,047)	(4,884)	(4,567)
Net change in total pension liability	6,738	(962)	4,357
Total pension liability, beginning	132,836	133,799	129,442
Total pension liability, ending (a)	139,574	132,836	133,799
Fiduciary Net Position			
Employer contributions	$1,469	$1,715	$3,170
Member contributions	0	0	0
Investment income net of investment expenses	11,133	(1,024)	9,983
Benefit payments	(5,047)	(4,884)	(4,567)
Administrative expenses	(109)	(93)	(83)
Net change in plan fiduciary net position	7,447	(4,286)	8,502
Fiduciary net position, beginning	147,829	152,114	143,612
Fiduciary net position, ending (b)	155,275	147,829	152,114
Net pension liability, ending = (a) - (b)	($15,701)	($14,992)	($18,315)
Fiduciary net position as a % of total pension liability	111.25%	111.29%	113.69%
Covered payroll[1]	$11,004	$10,773	$10,110
Net pension liability as a % of covered payroll	-142.69%	-139.16%	-181.15%

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the current GASB standards, they should not be reported.

[1] Annual covered payroll is based on the assumption that each active member earns the salary rate of the highest paid non-officer police officer in the City of Bloomington. Because all active plan members are volunteers, there is no actual payroll.

Pension Expense

Pension Expense	January 1, 2015 to December 31, 2015	January 1, 2016 to December 31, 2016
Service cost	$3,141,630	$2,955,252
Interest on total pension liability	8,072,050	7,998,295
Effect of plan changes	0	0
Administrative expenses	93,226	109,128
Member contributions	0	0
Expected investment return net of investment expenses	(9,030,428)	(8,760,731)
Recognition of Deferred Inflows/Outflows of Resources		
Recognition of economic/demographic gains or losses	(1,869,864)	(1,676,528)
Recognition of assumption changes or inputs	0	0
Recognition of investment gains or losses	2,010,884	1,536,356
Pension Expense	2,417,498	2,161,772

As of December 31, 2016, the deferred inflows and outflows of resources are as follows:

Deferred Inflows / Outflows of Resources	Deferred Inflows of Resouces	Deferred Outflows of Resouces
Differences between expected and actual experience	($3,552,740)	$638,010
Changes of assumptions	0	0
Net difference between projected and actual earnings	0	4,134,540
Contributions made subsequent to measurement date	0	0
Total	(3,552,740)	4,772,550

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2017	($140,172)
2018	46,816
2019	1,729,694
2020	(416,528)
2021	0
Thereafter*	0

* Note that additional future deferred inflows and outflows of resources may impact these numbers.

Schedule of Deferred Inflows and Outflows of Resources

	Original Amount	Date Established	Original Rec. Period*	Amount Recognized in Pension Expense for FYE 12/31/2016	Amount Recognized in Pension Expense through 12/31/2016	Balance of Deferred Inflows as of 12/31/2016	Balance of Deferred Outflows as of 12/31/2016
Economic/ demographic gains or losses	$831,346	12/31/2016	4.3	$193,336	$193,336	$0	$638,010
	(7,292,468)	12/31/2015	3.9	(1,869,864)	(3,739,728)	(3,552,740)	0
		Total		(1,676,528)	(3,546,392)	(3,552,740)	638,010
Assumption changes or inputs	0	12/31/2016	0.0	0	0	0	0
	0	12/31/2015	0.0	0	0	0	0
		Total		0	0	0	0
Investment gains or losses	(2,372,642)	12/31/2016	5.0	(474,528)	(474,528)	(1,898,114)	0
	10,054,422	12/31/2015	5.0	2,010,884	4,021,768	0	6,032,654
		Total		1,536,356	3,547,240	(1,898,114)	6,032,654

	Deferred Inflows	Deferred Outflows
Total for economic/demographic gains or losses and assumption changes or inputs	(3,552,740)	638,010
Net deferred (inflows)/outflows for investment gains or losses	0	4,134,540
Total deferred (inflows)/outflows	(3,552,740)	4,772,550
Total net deferrals		1,219,810

* Investment (gains)/losses are recognized in pension expense over a period of five years; economic/demographic (gains)/losses and assumption changes or inputs are recognized over the average remaining service life for all active and inactive members.

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Deferred (Inflows)	Deferred Outflows	Net Investment (Inflows)/ Outflows	Net Deferrals	Net Pension Liability plus Net Deferrals	Annual Expense
Balances as of December 31, 2015	($132,836,377)	$147,828,626	$14,992,249	($5,422,604)	$0	$8,043,538	$2,620,934	$17,613,183	
Service cost	(2,955,252)		(2,955,252)						2,955,252
Interest on total pension liability	(7,998,295)		(7,998,295)						7,998,295
Effect of plan changes	0		0						0
Effect of liability gains or losses	(831,346)		(831,346)		831,346		831,346		
Effect of assumption changes or inputs	0		0				0		
Benefit payments	5,046,951	(5,046,951)	0						
Administrative expenses		(109,128)	(109,128)						109,128
Member contributions		0	0						0
Expected net investment income		8,760,731	8,760,731						(8,760,731)
Investment gains or losses		2,372,642	2,372,642			(2,372,642)	(2,372,642)		
Employer contributions		1,469,482	1,469,482					1,469,482	
Recognition of liability gains or losses				1,869,864	(193,336)		1,676,528		(1,676,528)
Recognition of assumption changes or inputs							0		0
Recognition of investment gains or losses						(1,536,356)	(1,536,356)		1,536,356
Annual expense								(2,161,772)	2,161,772
Balances as of December 31, 2016	(139,574,319)	155,275,402	15,701,083	(3,552,740)	638,010	4,134,540	1,219,810	16,920,893	

Glossary

Actuarially Determined Contribution	A target or recommended contribution to a defined benefit pension plan for the reporting period, determined based on the funding policy and most recent measurement available when the contribution for the reporting period was adopted.
Deferred Inflows/Outflows of Resources	Portion of changes in net pension liability that is not immediately recognized in Pension Expense. These changes include differences between expected and actual experience, changes in assumptions, and differences between expected and actual earnings on plan investments.
Discount Rate	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 sum of: 1) The actuarial present value of benefit payments projected to be made in future periods where the plan assets are projected to be sufficient to meet benefit payments, calculated using the Long-Term Expected Rate of Return. 2) The actuarial present value of projected benefit payments not included in (1), calculated using the Municipal Bond Rate.
Fiduciary Net Position	Equal to market value of assets.
Long-Term Expected Rate of Return	Long-term expected rate of return on pension plan investments expected to be used to finance the payment of benefits, net of investment
Money-Weighted Rate of Return	The internal rate of return on pension plan investments, net of investment expenses.
Municipal Bond Rate	Yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.
Net Pension Liability	Total Pension Liability minus the Plan's Fiduciary Net Position (unfunded accrued liability).
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 expected future service.
Service Cost	The portion of the actuarial present value of projected benefit payments that is attributed to a valuation year.
Total Pension Liability	The portion of actuarial present value of projected benefit payments that is attributable to past periods of member service using the Entry Age Normal cost method based on the requirements of GASB 67 and 68.