Funding Basics of Retirement Programs

Monroe County Employees Retirement System
Monroe County Retiree Health Care Plan

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GRS
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Agenda

- Background
- What is an Actuarial Valuation?
- Pre-Funding and Accounting Basics
- Retirement System Highlights
- Retiree Health Plan Highlights
- Governmental Accounting Standards Board (GASB) Statements 67/68

Background

- The Retirement System and the Retiree Health Plan are defined benefit arrangements:
  - A promise made to employees, that benefits will be provided by the Plan sponsor upon retirement
  - Retirement System benefits are clearly defined (i.e., in collectively bargained agreement, plan document, etc.)
  - Retiree Health benefits may not be clearly defined

Background

- In order for a benefits program to be self-sustaining, the following must hold:

$$C + I = B + E$$

- C - contributions
- I - investment income
- B - benefits
- E - expenses

Background

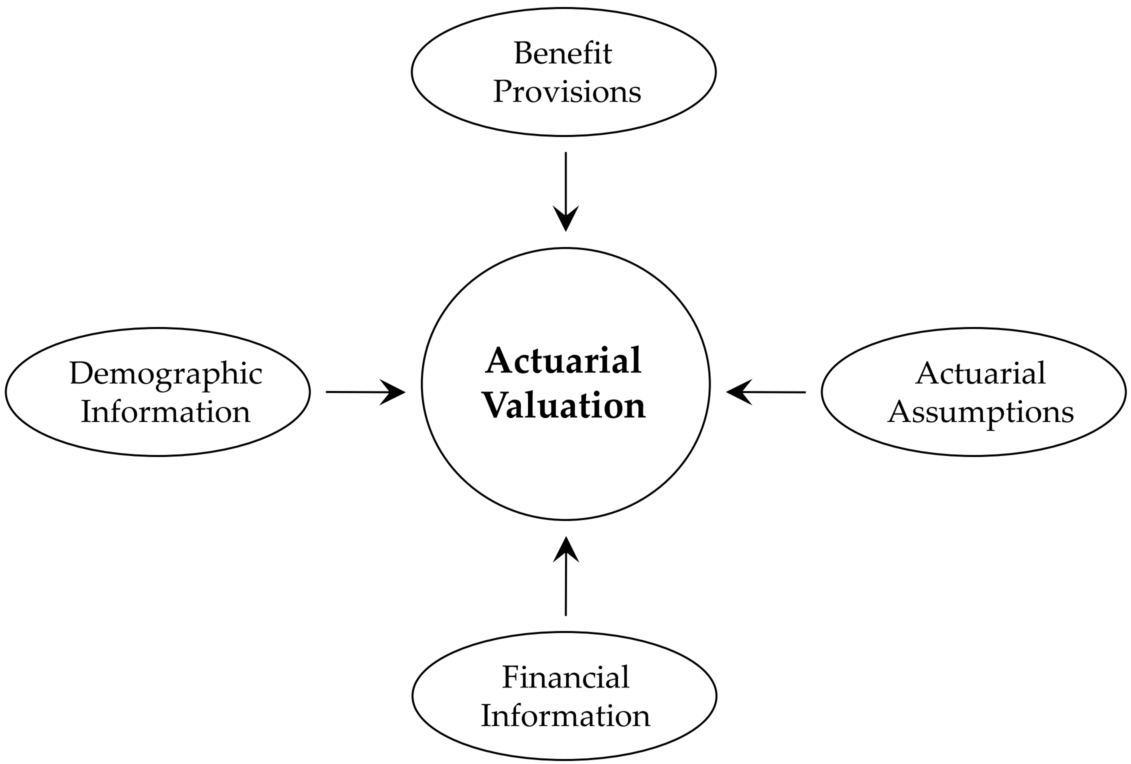
- What is the actuary's role?
  - ▶ Perform actuarial valuation to determine contributions such that the Plan remains solvent
    - Contribution calculated by actuary is reasonable based on known past information and assumptions about future events
  - ▶ Estimate cost of proposed benefit changes
  - ▶ Be an advisor to policy makers with respect to the actuarial operations of the Plan
  - ▶ Actuary performs these duties using:
    - Generally accepted actuarial principles and,
    - In accordance with standards of practice prescribed by the Actuarial Standards Board
  - ▶ Actuary is not a decision maker

What is an Actuarial Valuation?

- A mathematical process used to project future benefit payments based on specified benefit provisions, assumptions and participant data.

- These projected benefit payments are converted to equivalent present value amounts and the annual contribution is determined.

What is an Actuarial Valuation?



Demographic information, Financial information and Benefit Provisions are provided by the Plan sponsor (Employer).

Actuarial Assumptions are recommended by the actuary and approved by the Plan sponsor or Board.

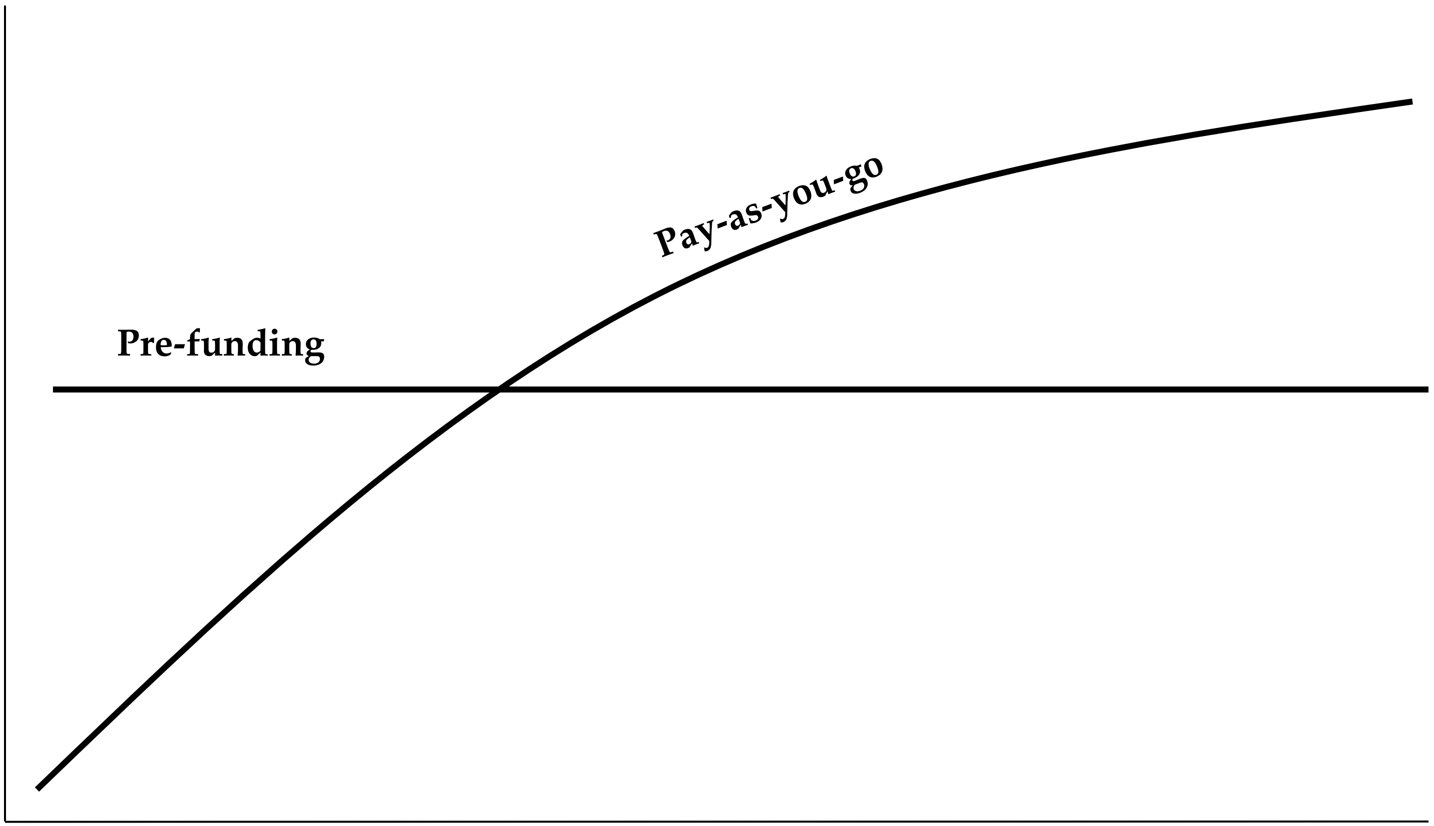
What is an Actuarial Valuation?

- Purpose of an actuarial valuation:
  - Understand the cost of the promise that has been made
  - Establish or maintain a funding program
  - Provide information for financial reporting
  - Assess long term cost implications of proposed benefit changes
  - Comply with legal and/or accounting requirements

Pre-Funding & Accounting Basics

- Pay-as-you-go funding
  - Pay benefits when they are due
  - Increasing cost method, as group matures and there are more retirees
- Pre-funding
  - Set aside money now, to pay for benefits later

Pre-Funding & Accounting Basics



Pre-Funding & Accounting Basics

- Benefits of pre-funding
  - Benefit security for plan members
  - Assets can generate investment income to help pay for the benefits
  - More level contribution pattern, so future generations of taxpayers will not be obligated to higher costs than the current generation
  - Prudent thing to do

Pre-Funding & Accounting Basics

- Consequences of not pre-funding
  - May not have enough money to pay the benefits promised
  - Forgo investment returns that could help pay for the cost of the benefits
  - Higher costs to future generations of taxpayers
  - Would likely have to lower or eliminate the benefits

Pre-Funding & Accounting Basics

- Retirement System
  - State law requires pre-funding
  - Subject to GASB Statements No. 25 and 27 (current)
  - Subject to GASB Statements No. 67 and 68 (future)
    - Increases importance of developing a written funding policy
- Retiree Health Plan
  - No state or federal law that requires pre-funding
  - Subject to GASB Statements No. 43 and 45

Pre-Funding & Accounting Basics

- Retiree Health Accounting Standards
  - Statements No. 43 and 45 are accounting standards, not funding requirements
  - However, GASB Statements No. 43 and 45 encourage pre-funding
  - If the County contributes less than the amount under the GASB requirements:
    - There will eventually be a large liability on the financial statements (Net OPEB Obligation)
    - This could impact the County's ability to borrow

Retirement System – Highlights of the December 31, 2012 Valuation

	Computed Contributions for Fiscal Year as Percentage of Payroll	
Fiscal Year	2013	2014
Valuation Date	12/31/2011	12/31/2012
General County	23.75 %	24.18 %
County Agency	34.12	31.98
Sheriff's Office	26.26	26.92
County Library	13.11	14.01
Road Commission	19.15	22.02
Mental Health	9.92	$ 627,471
Central Dispatch	19.42	19.94

For 12/31/2012 valuation, member contributions need to be deducted for each group.

Retirement System – Highlights of the December 31, 2012 Valuation

December 31, 2012	General County	County Agency	Sheriff's Office	County Library	Road Commission	Mental Health	Central Dispatch	Total
Participants								
Actives	289	27	140	113	74	108	20	771
Retired	322	28	115	48	81	71	8	673
Terminated Vested	60	-	7	8	9	51	-	135
Total	671	55	262	169	164	230	28	1,579
Payroll	$13,021,594	$1,281,495	$8,815,300	$4,147,914	$3,925,930	$5,437,587	$957,927	$37,587,747
Actuarial Accrued Liability	100,067,135	10,828,465	61,433,943	16,643,046	27,778,048	23,780,998	3,839,099	244,370,734
Actuarial Value of Assets	76,894,211	6,743,007	45,714,045	14,685,586	22,542,628	24,020,919	3,139,902	193,740,298
Unfunded Actuarial Accrued Liability	23,172,924	4,085,458	15,719,898	1,957,460	5,235,420	(239,921)	699,197	50,630,436
Funded Ratio	77%	62%	74%	88%	81%	101%	82%	79%
Contribution Requirement								
Normal Cost	12.74%	11.49%	15.46%	10.98%	13.45%	N/A	15.25%	
Amortization Payment	11.44	20.49	11.46	3.03	8.57	N/A	4.69	
Total	24.18%	31.98%	26.92%	14.01%	22.02%	N/A	19.94%	
$ Contribution	$3,405,549	$443,264	$2,566,722	$628,542	$935,032	$627,471	$206,597	$8,813,177
$ Contribution from 12/31/2011 Valuation	$3,383,658	$448,003	$2,526,806	$593,170	$915,648	$650,682	$197,695	$8,715,662

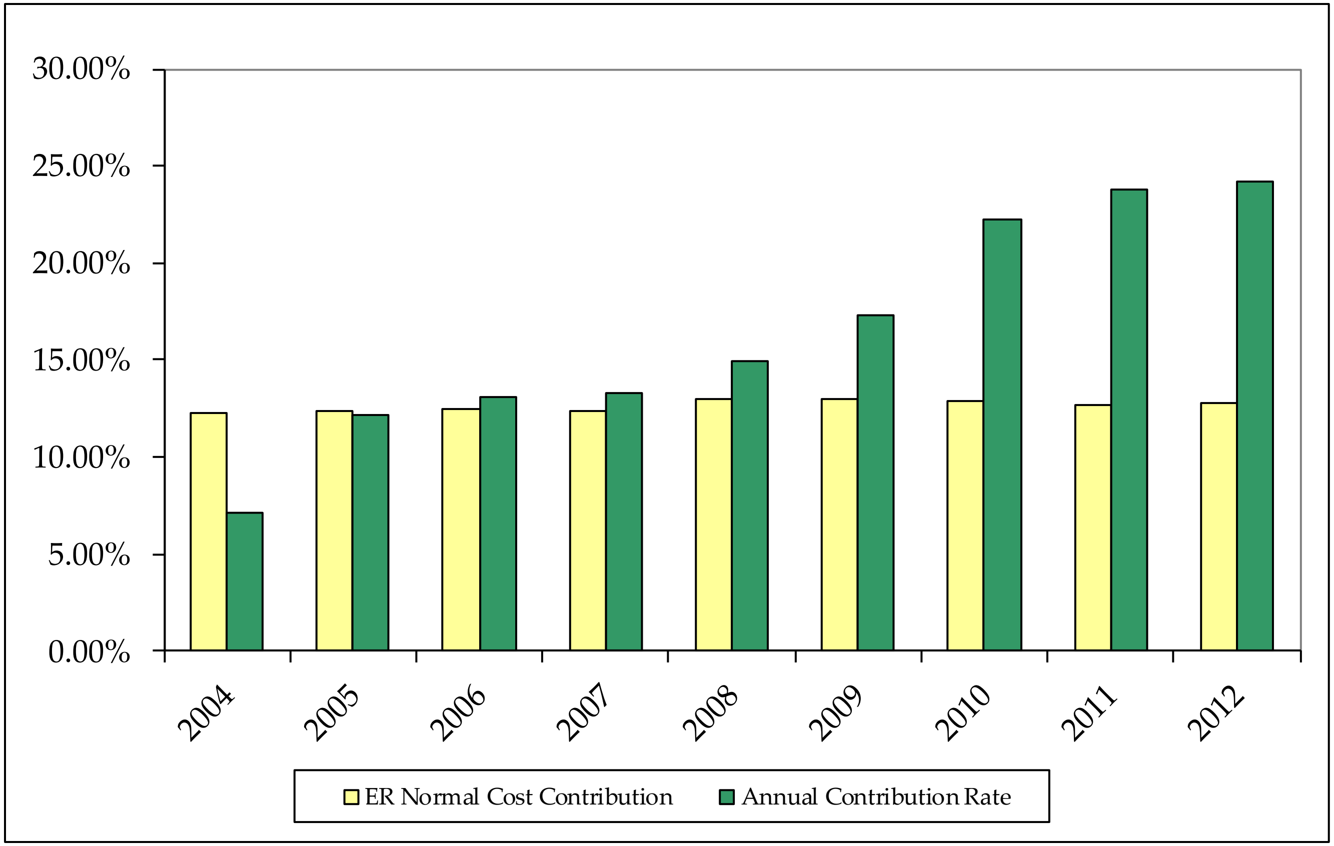
For 12/31/2012 valuation, member contributions need to be deducted for each group.

Retirement System Highlights – Asset Performance

	December 31,					
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Market Value of Assets	$187,790,674	$148,763,118	$165,646,245	$176,702,630	$166,315,177	$175,292,820
Rate of Return	7.80%	-19.30%	14.47%	9.65%	-2.07%	8.97%
Actuarial Value of Assets	$181,320,182	$184,967,843	$188,779,278	$192,859,386	$192,013,890	$193,740,298
Rate of Return	9.24%	3.74%	4.46%	4.71%	3.48%	3.59%

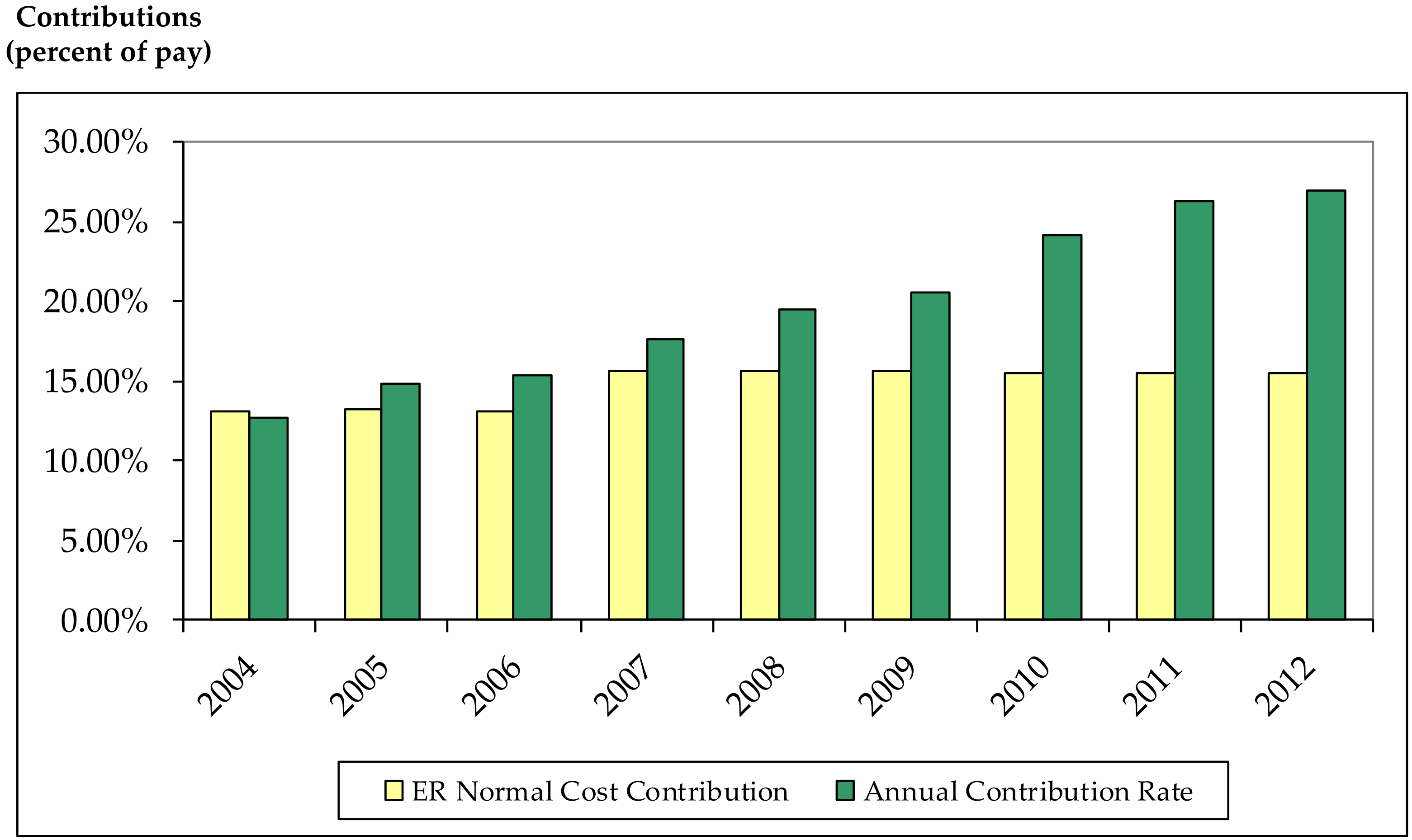
Historical Contributions – General County

Contributions
(percent of pay)



The 2012 Normal Cost is a Total Normal Cost rather than an Employer Normal Cost.

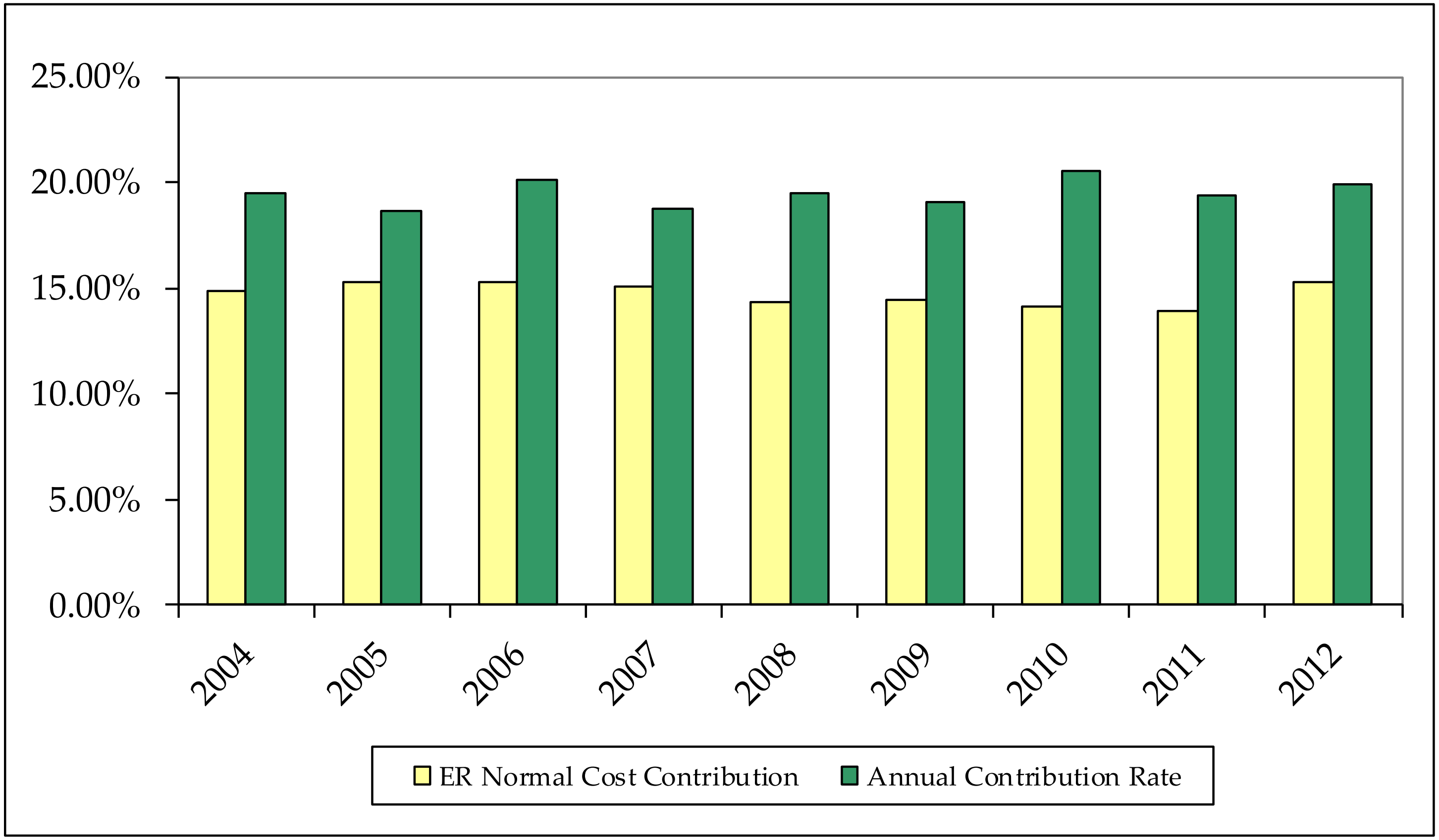
Historical Contributions – Sheriff's Office



The 2012 Normal Cost is a Total Normal Cost rather than an Employer Normal Cost.

Historical Contributions - Central Dispatch

Contributions (percent of pay)



The 2012 Normal Cost is a Total Normal Cost rather than an Employer Normal Cost.

Retirement System – Highlights of the December 31, 2012 Valuation

- Employer contribution rates have increased for most divisions since the 2011 valuation as a result of:
  - Unfavorable investment performance working its way through the asset smoothing method
  - Demographic experience varied by division

Retirement System – Highlights of the December 31, 2012 Valuation

- 13th Check Fund has been closed for the General County, County Agency, Sheriff's Office and Central Dispatch groups (assets now available for all members)
- Mental Health group closed to new hires

Retirement System – Looking Ahead

- Contribution rates are expected to increase in the short term as a result of the unfavorable investment performance from 2008 and 2011
- In the long term, contribution rates are expected to approach the long term cost of the benefits, or the normal cost
  - Normal Cost is 13.2% of pay (or about $5.4 million of the $8.8 million contribution)
  - Remainder of contribution is for payments toward the unfunded liability which is paid down over time (approximately 20 years)

Retirement System – Looking Ahead

- Retirement System
  - Overall funded ratio above national averages; varies by group
  - Has assets equal to 14 times benefit payments
  - Will continue to mature (not an issue for a pre-funded plan)
  - Is paying out more in benefits than is received in contributions; investment income pays for most of the benefits (this is the concept behind a pre-funded plan)
  - Actuarial assumptions are compliant with recent changes in Actuarial Standards of Practice
    - Mortality table projected with improvements through 2020
    - Interest rate of 7.0% is still very reasonable

Retiree Health Plan - Highlights of the December 31, 2012 Valuation

Fiscal Year Valuation Date	Computed Total Contributions 2013 12/31/2011	 2014 12/31/2012	Change
General County Billable	$1,297,226	$1,373,518	$76,292
General County Non-Billable	3,471,081	3,476,732	5,651
Sheriff's Office Billable	930,661	909,131	-21,530
Sheriff's Office Non-Billable	2,404,819	2,731,461	326,642
Dispatchers	149,029	149,030	1
Sub-Total	8,252,816	8,639,872	387,056
County Agency	615,902	624,925	9,023
Grand Total	8,868,718	9,264,797	396,079

- *These amounts represent the total contribution before adjustment for member contributions. Based on information provided by the County, the expected member contributions will be $410,664 for the fiscal year beginning January 1, 2014.*

Retiree Health Plan - Highlights of the December 31, 2012 Valuation

December 31, 2012	General County Billable	General County Non-Billable	Sheriff's Office Billable	Sheriff's Office Non-Billable	Dispatchers	Subtotal	County Agency	Total
Participants								
Actives	74	104	49	85	14	326	25	351
Retired	49	188	15	90	7	349	25	374
Total	123	292	64	175	21	675	50	725
Actuarial Accrued Liability	$17,396,063	$41,632,905	$10,507,114	$31,019,041	$2,585,556	$103,140,679	$7,458,441	$110,599,120
Actuarial Value of Assets	5,590,491	9,943,324	4,329,874	8,842,317	1,814,782	30,520,788	1,952,075	32,472,863
Unfunded Actuarial Liability	11,805,572	31,689,581	6,177,240	22,176,724	770,774	72,619,891	5,506,366	78,126,257
Funded Ratio	32.1%	23.9%	41.2%	28.5%	70.2%	29.6%	26.2%	29.4%
Contribution Requirement								
Normal Cost	$ 192,217	$ 305,777	$291,018	$ 512,391	$ 71,904	$1,373,307	$ 73,941	$1,447,248
Amortization Payment	1,181,301	3,170,955	618,113	2,219,070	77,126	7,266,565	550,984	7,817,549
Total	1,373,518	3,476,732	909,131	2,731,461	149,030	8,639,872	624,925	9,264,797
Contribution from Last Year	$1,297,226	$3,471,081	$930,661	$2,404,819	$149,029	$8,252,816	$615,902	$8,868,718

Retiree Health Plan Highlights – Asset Performance

	December 31,					
	2007	2008	2009	2010	2011	2012
Market Value of Assets	$21,221,477	$21,032,303	$24,548,981	$25,159,436	$27,322,398	$32,175,735
Rate of Return	3.28%	-20.41%	13.17%	9.83%	-1.00%	10.59%
Actuarial Value of Assets	$21,413,565	$26,350,668	$27,766,030	$26,954,468	$29,756,300	$32,472,863
Rate of Return	7.36%	1.37%	2.67%	3.37%	1.34%	2.79%

Retiree Health Plan – Highlights of the December 31, 2012 Valuation

- Employer contributions have increased for most divisions since the 2011 valuation as a result of:
  - ► Unfavorable investment performance working its way through the asset smoothing method
  - ► Demographic experience varied by division
  - ► Re-setting health care inflation assumption

Retiree Health Plan – Highlights of the December 31, 2012 Valuation

- Retiree Health Plan
  - Funded ratio above national averages for retiree health care; most systems have not pre-funded
  - Has assets equal to about 6 times benefit payments
  - 2008 Asset Loss is now fully recognized with 5-year asset smoothing; more stable contributions going forward
- Steps have been taken to control costs
  - System is now closed to new hires for all groups as of 6/1/2013
  - Employee contributions have been added to help pre-fund
  - Changes in co-pays and deductibles, new health plans and post employment mirroring

GASB 67/68 Background

- In June 2012, the Governmental Accounting Standards Board (GASB) approved two new accounting and reporting standards for pensions provided by state and local governments
  - GASB Statement 67, *Financial Reporting for Pension Plans,* amends Statements 25 and 50
  - GASB Statement 68, *Accounting and Reporting for Pensions*, amends Statements 27 and 50

Summary of Key Changes

- Under the GASB's current standards, there is a close link between the accounting and funding measures. Under the new statements, the two are disconnected:

	Funding Purposes	Accounting Purposes
Discount Rate	Long-term rate of investment return	Long-term investment return and potentially a municipal bond rate
Asset Valuation	May be smoothed	Fair (market) value
Amortization	Considerable flexibility	Strict requirements and likely shorter periods
Actuarial Cost Method	Considerable flexibility	Traditional entry age normal

Big Picture

- There will be a ***liability*** on the books that is larger than ever seen
  - This will be a "bumpy" liability; changing each year with a new blended discount rate and change in market value of assets
- There will be an ***expense*** on the books that is larger than ever seen
- **The changes only impact the accounting rules**
- **The changes only impact pension accounting (for now)**
- **Changes to retiree health accounting typically 5 to 6 years down the road**

Questions?

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