Milliman Presentation to:

Monroe County Board of Commissioners

12/31/2014 Actuarial Analysis of the Monroe County Retiree Health Care Plan

Prepared by:

Tim Herman, FSA, EA, MAAA
Consulting Actuary

Gerry Bernstein, FSA, MAAA
Consulting Actuary

September 15, 2015

Milliman

What We'll Talk About Today

- Discuss 12/31/2014 valuation results
  - Contribution Budgeting
  - Accounting Results
- Identify issues/concerns
- Answer/Respond to questions from Board of Commissioners

Purpose of Actuarial Valuation

- Measurement of assets and liabilities
  - Disclosure information for financial reports
  - Contribution Budgeting
- Best estimate of ultimate costs
  - Membership data
  - Health care claims experience
  - Plan provisions
  - Actuarial assumptions
  - Asset valuation method
  - Cost method

Actuarial Valuation

- The actuarial valuation is a snapshot picture of the system as of a single date, 12/31/2014
- The actuary puts values on each funding element – the assets, benefits and future contributions
  - Based on one set of assumptions
  - Results different with another set of assumptions
  - A range of outcomes exists

Other Postemployment Benefits (OPEB)

Summary of County Benefits for Employees

KEY PROVISIONS:

- County funds majority of premiums for retiree health care for the retiree plus part of the premium if spouse coverage is elected.
- Active employees contribute 3% of base pay.
- Newly hired employees are not eligible for County-paid retiree health care. Effective dates vary beginning in 2003 and last group closed in 2013.

Group	Retirement Eligibility	County Payment towards Spousal Coverage
General County	Age 55 with 30 years of service or Age 60 with 8 years of service.	50% plus 2.27% for service in excess of 8 years
County Agency	Age 55 with 30 years of service or Age 60 with 8 years of service.	50% plus 2.27% for service in excess of 8 years
Sheriff's Office	Age 50 with 25 years of service or Age 60 with 8 years of service.	50% plus 2.94% for service in excess of 8 years
Dispatchers	Age 50 with 25 years of service or Age 60 with 8 years of service.	50% plus 2.94% for service in excess of 8 years

ACTIONS TAKEN TO CONTROL COSTS:

- Newly hired employees are not eligible for County-paid retiree health care
- Active employees contribute 3% of pay
- Changes to active health benefit plans expected to reduce pre-Medicare costs by 30% over a 7-year period, as active members retire and mirror active health care benefits

Contribution Budgeting for Retiree Health Care Benefits

Milliman

Projected Contribution Rates

Total Contributions

Division	2015	2016	Increase/ (Decrease)
General County – Billable	$1,449,947	$1,103,995	$ (345,952)
General County – Non-Billable	4,087,466	3,297,474	(789,992)
Sheriff's Office – Billable	1,073,465	774,997	(298,468)
Sheriff's Office – Non-Billable	3,281,450	2,885,203	(396,247)
Dispatchers	249,946	260,663	10,717
County Sub-Total	$10,142,274	$8,322,332	$(1,819,942)
County Agency	700,594	581,849	(118,745)
Total Before Member Contribution:	**$10,842,868**	**$8,904,181**	**$(1,938,687)**
Expected Member Contributions	(475,593)	(473,657)	(1,936)
Expected County Contributions	$10,367,275	$8,430,524	($1,936,751)

KEY DRIVERS OF CHANGES IN TOTAL CONTRIBUTION:

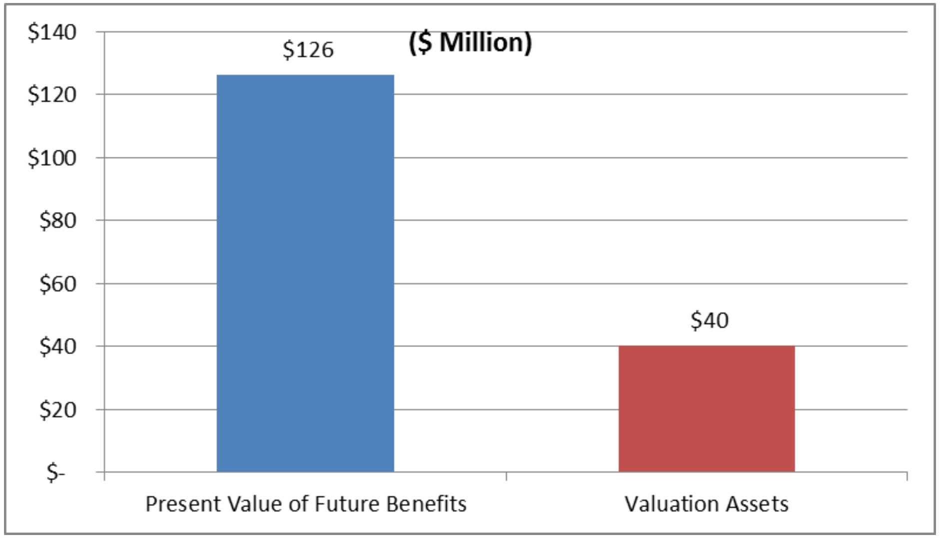
- Favorable health care experience
- Lower expected future health care cost increases
- Savings from changes to health benefit plan

COUNTY FUNDING POLICY:

- December 31, 20XX valuation is used to budget for contributions paid in 20XX + 2 fiscal year.
- Except for discount rate, contributions determined using the same data, plan provisions, assumptions and methods used to prepare the accounting results.

What Drives Contribution Rates?

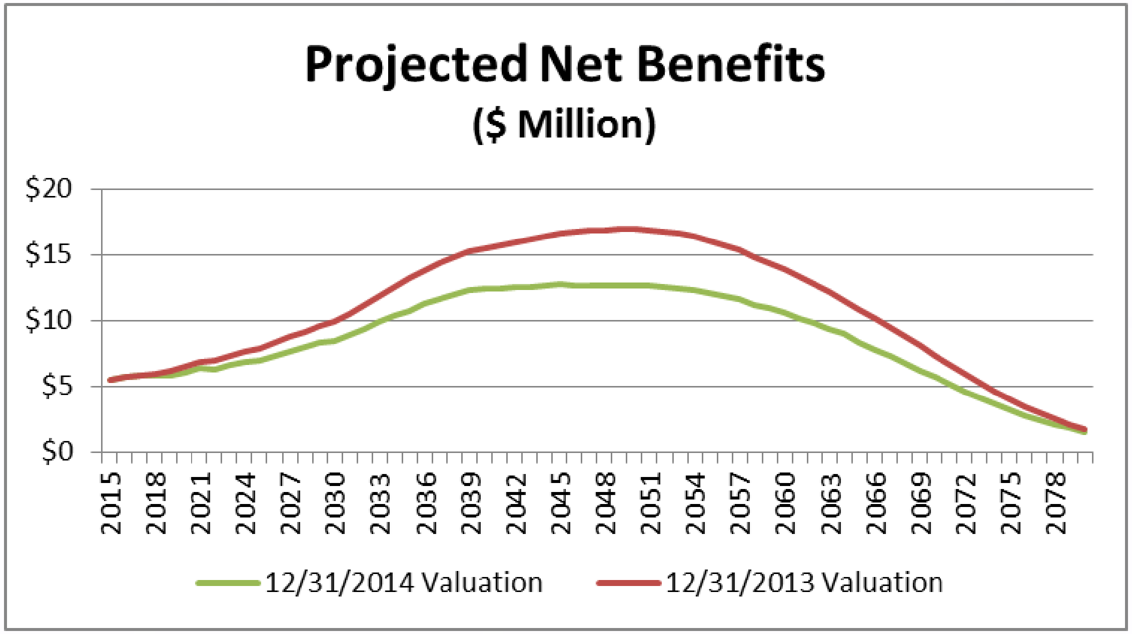
- County Liabilities
  - Demographic experience (members)
  - Changes in assumptions or methods
  - Changes in benefit structure
- County Assets
  - Rate of return on market value basis
  - Amount and timing of County contributions



Milliman

Projected Net Benefits

- County's liability is measured as the difference between projected retiree medical costs and retiree premiums



Projected Net Benefits = "Employer Contributions" in a pay-as-you-go funding arrangement

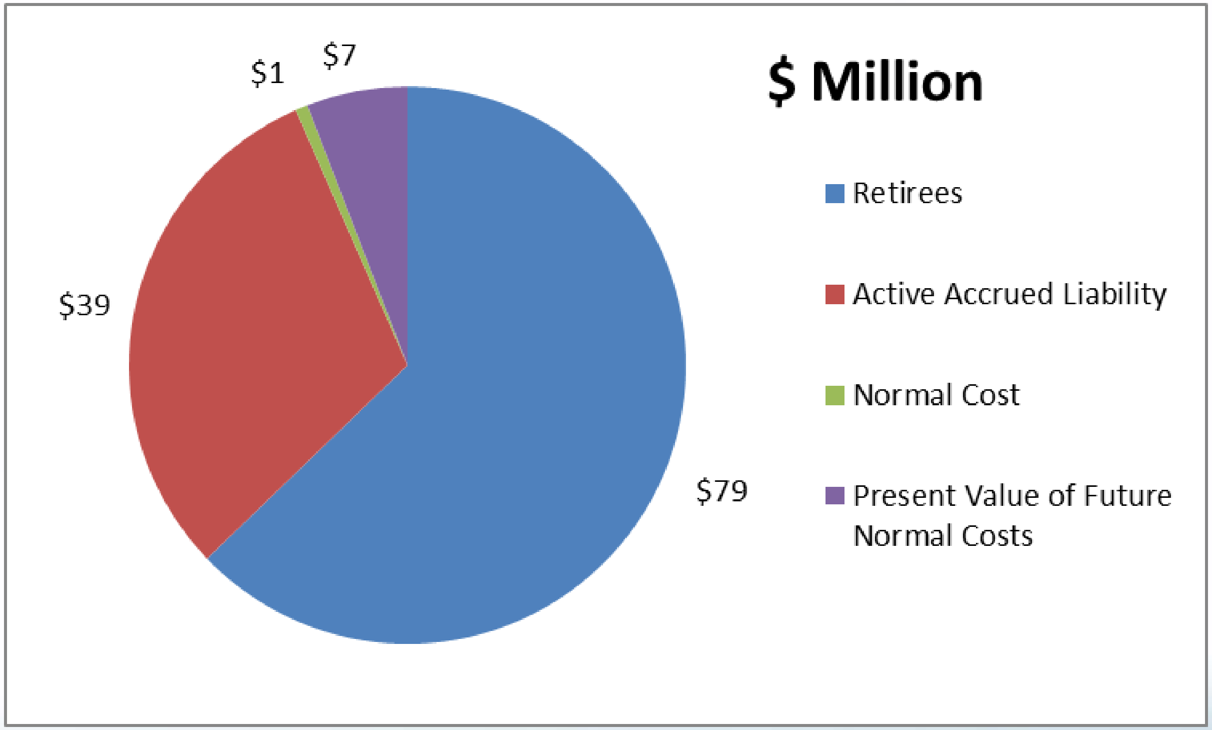
Present Value of Total Projected Net Benefits using 6.5% discount rate assumption:

12/31/2013	12/31/2014
$145 Million	$126 Million

Milliman

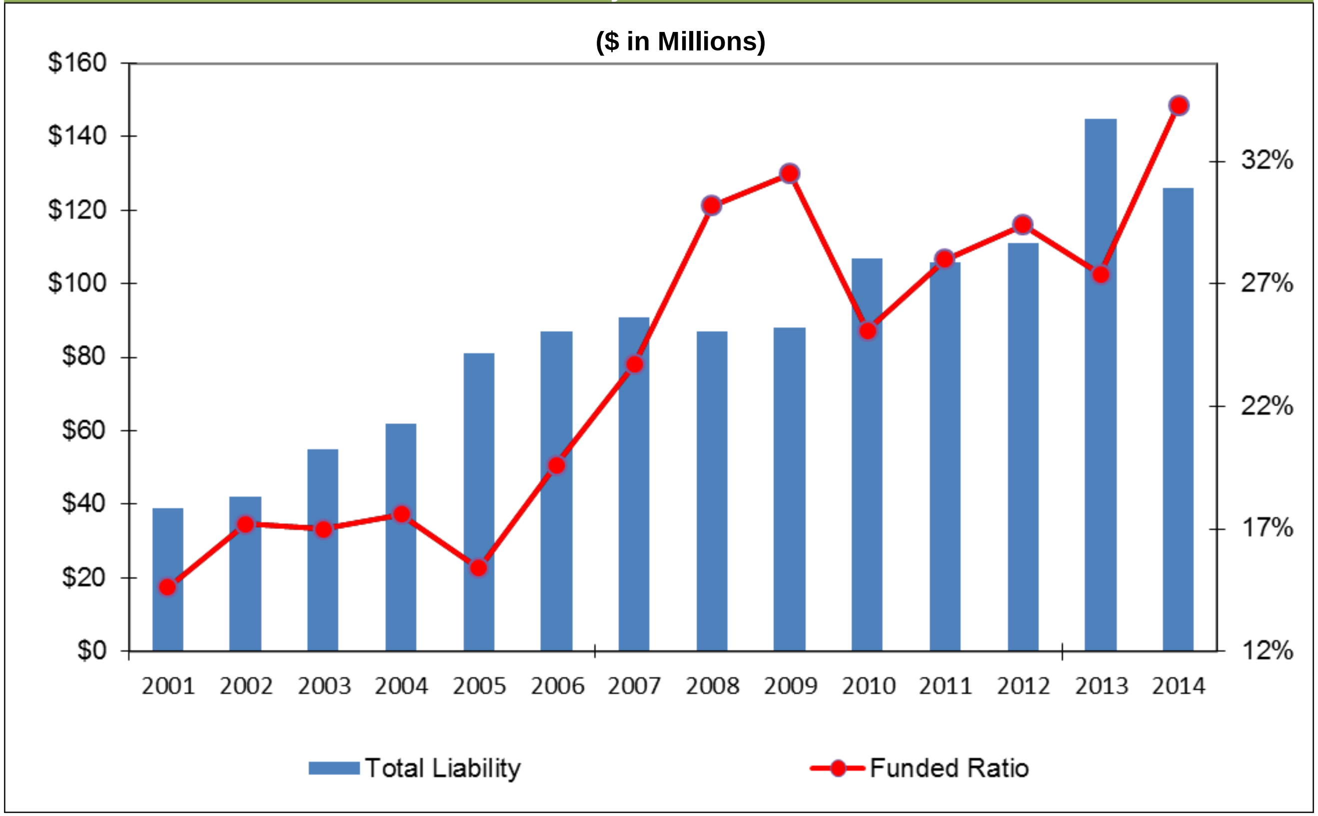
Present Value of Total Projected Benefits

- If the County had $126M in OPEB trust fund at December 31, 2014 and all actuarial assumptions realized, then no future contributions required for current employees and retirees



Historical Funded Ratio

Present Value of Total Projected Benefits and Funded Ratio



Source: Information prior to 2013 provided by County

Over time, liability has grown to $126M, and funded ratio has increased to 34.3%

Most OPEB plans are unfunded (i.e. funded ratio is 0%)

Milliman

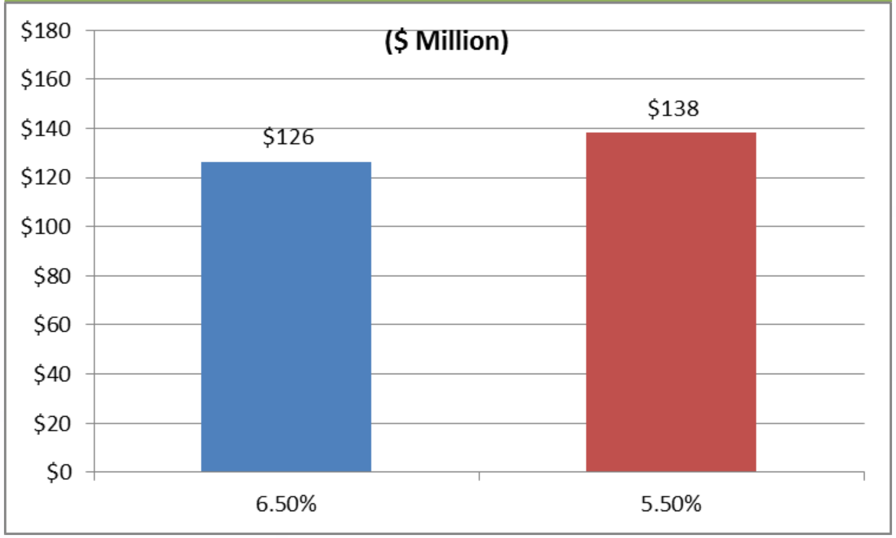
Accounting for Retiree Health Care Benefits

Milliman

GASB 45 Actuarial Valuation Results

- **Key Difference between Contribution Budgeting and Accounting Valuation is the Discount Rate:**

Present Value of Total Projected Benefits



- **Setting the Discount Rate under GASB 45 parameters:**
  - Are benefits prefunded in an irrevocable trust?
    - Yes
  - To what extent is the County prefunding benefits?
    - Historically 76% of ARC
  - What is the expected rate of return on plan assets?
  - Based on GASB guidelines and Milliman analysis, a 5.5% discount rate was selected for GASB 45 valuation.
  - GASB 75 will change the discount rate setting process. See Slide 16 for more information.

Milliman

GASB 45 Actuarial Valuation Results

Annual Required Contribution

Fiscal Year	2015	2016
Determination of Annual Required Contribution		
1. Discount Rate	5.50%	5.50%
2. Normal Cost	$ 1,661,473	$ 1,357,843
3. Amortization of Unfunded Actuarial Accrued Liability	11,156,590	9,224,677
4. Annual Required Contribution (ARC): [2.+ 3.]	$12,818,063	$10,582,520
5. Expected Employee Contributions	$ (475,593)	$ (473,657)
6. Estimated County Contribution: [4.+ 5.]	$12,342,470	$10,108,863

GASB 45 TERMINOLOGY:

"Annual Required Contribution"

- Starting point for accounting expense recognized in financial statements
- There is no requirement to prefund retiree medical benefits
- Most public employers do not prefund.

Milliman

GASB 45 Actuarial Valuation Results

Net OPEB Obligation

Fiscal Year End	12/31/2014	12/31/2015
Net OPEB Obligation		
1. Total Annual Required Contributions	$ 9,264,797	$ 12,818,063
2. Employee Contributions	(410,664)	(475,593)
3. Net Employer Annual Required Contributions	9,264,797[1]	12,342,470
4. Interest on Net OPEB Obligation	951,713	897,067
5. Adjustment to ARC[2]	(1,271,441)	(1,411,500)
6. Net OPEB Cost (Expense)	$8,945,069	$11,828,037
7. Employer Contributions Made	(6,230,662)	(7,182,302)
8. Increase in Net OPEB Obligation	$ 2,714,407	$ 4,645,735
9. Net OPEB Obligation – Beginning of Year	13,595,902	16,310,309
10. Net OPEB Obligation – End of Year	$16,310,309	$20,956,044

(1) As reported in 12/31/2014 financial statements.

(2) Adjustment to ARC is to offset, approximately, the amortization of the net experience losses (or gains) from past contribution deficiencies (or excess contributions) in relation to the ARC.

GASB 45 TERMINOLOGY:

"Net OPEB Obligation"

- Balance sheet liability
- This is the running balance of contributions in relation to the adjusted "Annual Required Contributions"
- Balance Sheet liability if actual contributions are less than adjusted "Annual Required Contribution"

Milliman

New GASB Standards for OPEB Plans

June 2015 Adopted changes are Similar to GASB 67/68 for Pensions

Main Impact for Monroe County is Balance Sheet Liability:

($ in Millions)

Current GASB 45	Proposed Standard
$16.3	$96.8

Current GASB 45: Balance sheet liability is Net OPEB Obligation

Proposed Standard: Balance sheet liability is the difference between the Accrued Liability and the Market Value of Assets at the fiscal year end.

- Accrued liability calculated using blended discount rate. Long-term asset return until assets depleted, then municipal bond rate
- Amount shown above uses 5.5% discount for illustrative purposes (no projections were prepared)

ADDITIONAL INFORMATION:

Proposed Effective Date:

- 2018 fiscal year (fiscal years beginning after June 15, 2017)
- Larger and more volatile expense
- More information to disclose
- Actuarial Issues:
  - Timing because balance sheet liability is determined at balance sheet date
  - Need to determine discount rate by projecting assets (higher fees)

See Milliman PERiScope Alert for more information

Monroe County Actions Taken to Control OPEB Costs

Health Benefit Plan Design	Retiree Medical Plan Design	Contribution / Investment Decisions

• Changes to active health benefit plans expected to reduce pre-Medicare costs by 30% over a 7-year period, as active members retire and mirror active health care benefits.
  • Health care plan evolves in retirement
  • No longer static
	• Newly hired employees are not eligible for County-paid retiree health care	• County contributes to trust annually
		• Active employees contribute 3% of pay
		• Assets allocated to achieve higher expected return
		  – County is taking on risk
		  – Costs reduced if realized return exceeds discount rate
		  – Costs increased if realized return is less than discount rate

County actions taken to date have helped to control costs. Some of the changes will take several years to produce noticeable results.

Milliman

OPEB Cost Reduction Strategies

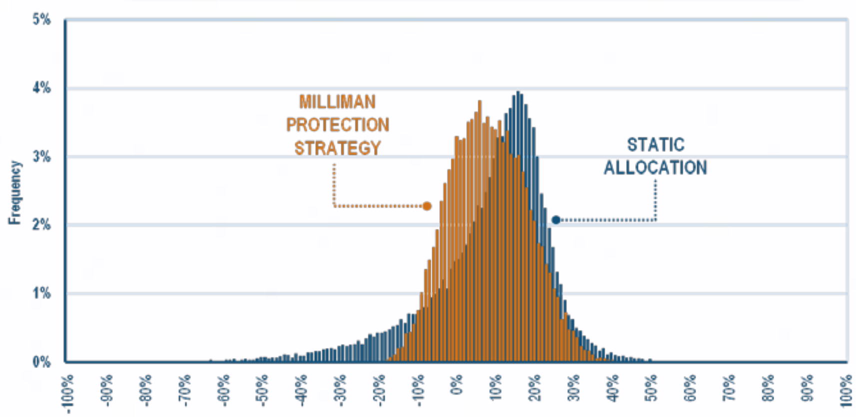
Health Benefit Plan Design	Retiree Medical Plan Design	Contribution / Investment Decisions
• Deductibles, copays, coinsurance • Annual out-of-pocket limits • Medicare coordination methods • Pharmacy tiered copays • Modify drug formularies • Replace medical coverage for Medicare-eligible retirees with Medicare Advantage Plan • Wellness Programs • Disease Management Programs • Consumer-driven health plans	• Discontinue eligibility for retiree coverage at Medicare-eligibility age • Reduce or eliminate County contributions for current retirees • Reduce or eliminate County contribution for dependent (spouse) coverage • Base retiree contribution on pre-65 retiree rate (rather than blended active/pre-65 premium rate) • Freeze County contribution at current dollar amount, possibly with a fixed percentage annual increase • Implement an account balance approach • Increase eligibility requirements for retiree medical coverage • In 2016, replace current coverage for pre-65 retirees with premium substitutes for Insurance Exchange Coverage	• Increase/accelerate advance funding (time value of money) • Modify asset allocation to achieve higher expected return – May mean taking on more risk – Costs reduced if realized return exceeds discount rate – Costs increased if realized return is less than discount rate • Milliman Managed Risk Strategy – Win by not losing – See Page 19 for additional information

Because Milliman is not a law firm, we cannot provide legal advice. We recommend you seek the advice of a qualified attorney for appropriate legal review before finalizing any decisions.

The Milliman Managed Risk Strategy

The Milliman Managed Risk Strategy is a futures overlay that on average aims to preserve 80% of the upside potential of equities with 25% of the downside exposure.

Improve Return Distribution



Cushion downside, Maintain upside

Adding a protection strategy reduces downside exposure and provides much greater certainty that investors can achieve funding objectives

Milliman

Important Notices

- This work product was prepared solely for Monroe County for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.
- This work product is based on the December 31, 2014 GASB 45 valuation report dated August 13, 2015. The valuation report and this work product are complex, technical analyses that assume a high level of knowledge concerning Monroe County's operations, and uses data from Monroe County, which Milliman has not audited.
- Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.
- Actuarial cost methods for Contribution Budgeting are prescribed by Monroe County. The County is responsible for selecting the plan's funding policy, actuarial valuation methods, and asset valuation methods. The policies and methods used in the Contribution Budgeting valuation are those that have been so prescribed and are described in the Actuarial Basis of the December 31, 2014 GASB 45 valuation report. The County is solely responsible for communicating to Milliman any changes required thereto.
- Emerging costs and liabilities will vary from those presented to the extent that actual experience differs from that projected by the actuarial assumptions.
- This work product and its use are subject to the terms and provisions of our Consulting Services Agreement with Monroe County dated January 22, 2014.