



# Funding Basics of Retiree Health Care Programs

Monroe County Retiree Health Care Plan

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**GRS**

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# Agenda

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- ◆ Background
- ◆ What is an Actuarial Valuation?
- ◆ Pre-Funding and Accounting Basics
- ◆ Your Plan – December 31, 2009 Actuarial Valuation
- ◆ Current Issues and Implications
- ◆ Comparing Various Retiree Health Plans
- ◆ Recommended Steps for the County
- ◆ What Others Have Done



# Background

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- ◆ Many retiree health care programs are defined benefit arrangements:
  - ▶ A promise made to employees, that health care benefits will be provided upon retirement
  - ▶ Sometimes clearly defined (i.e., in collectively bargained agreement, plan document, etc.)
  - ▶ Sometimes not clearly defined



# Background

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

$$\mathbf{C + I = B + E}$$

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



# Background

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- ◆ 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?

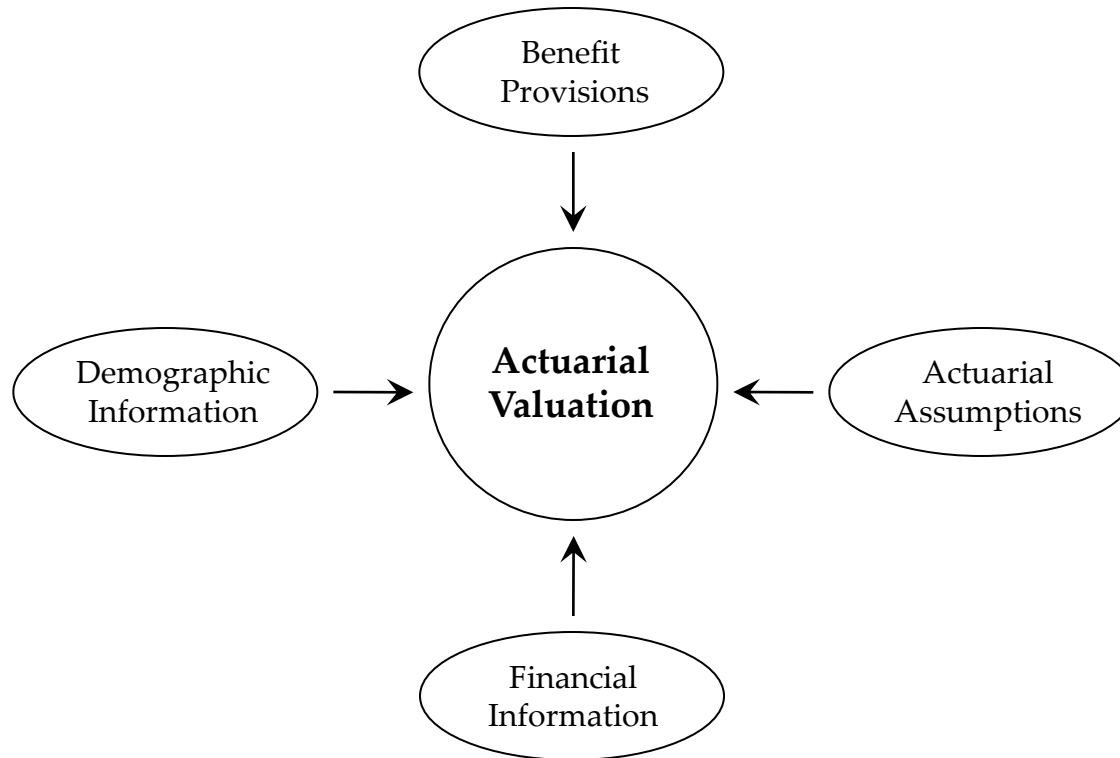
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- ◆ A mathematical process used to project future benefit payments based on specified benefit provisions, assumptions and participant data.
- ◆ These projected benefit payments are converted to equivalent present value amounts and the level percent of payroll contribution is determined.



# What is an Actuarial Valuation?

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Demographic information, Financial information and Benefit Provisions are provided by the plan sponsor.

Actuarial Assumptions are recommended by the actuary and approved by the plan sponsor or board.



# What is an Actuarial Valuation?

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## ◆ 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

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## ◆ Pay-as-you-go funding

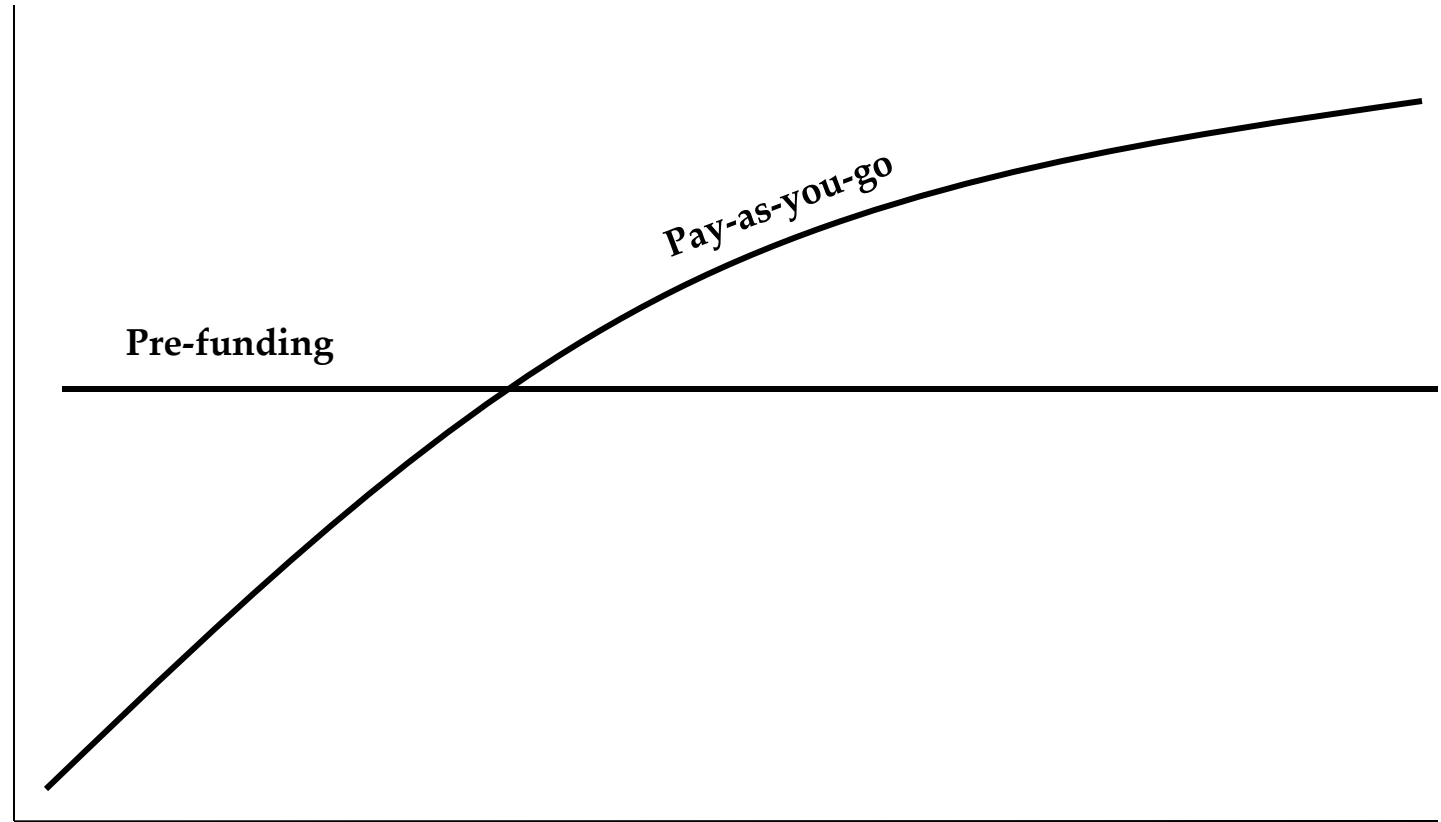
- ▶ Pay benefits when they are due
- ▶ Increasing cost method, as group matures and there are more retirees

## ◆ Pre-funding

- ▶ Set aside money now, to pay for benefits later



# Pre-Funding & Accounting Basics





# Pre-Funding & Accounting Basics

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## ◆ Why pre-fund?

- ▶ 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

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## ◆ 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

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- ◆ GASB Statements No. 43 and No.45
  - ▶ The Governmental Accounting Standards Board (GASB) has issued two accounting standards applicable to “other post-employment benefits”, including retiree health benefits (Statements No. 43 and 45)
  - ▶ Government entities that sponsor retiree health plans have to comply with these accounting standards



# Pre-Funding & Accounting Basics

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## ◆ Accounting Standards

- ▶ Statements No. 43 and 45 are accounting standards, not funding requirements
- ▶ There is no state or federal law that requires pre-funding of retiree health plans
- ▶ 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)
  - It could impact the County's ability to borrow



# Your Plan - December 31, 2009 Actuarial Valuation

## Total Contributions to Provide Retiree Health Benefits Fiscal Year Beginning January 1, 2011

Contributions for	General County		County Agency	Sheriff's Office		Dispatchers
	Billable	Non-Billable		Billable	Non-Billable	
Employer Normal Cost	\$ 223,861	\$ 391,386	\$ 82,027	\$347,966	\$ 571,926	\$ 70,478
Payment of Unfunded Accrued Liability	\$ 820,920	\$2,287,019	\$386,304	\$299,737	\$1,134,905	\$136,184
<b>Computed Employer Contribution</b>	<b><u>\$1,044,781</u></b>	<b><u>\$2,678,405</u></b>	<b><u>\$468,331</u></b>	<b><u>\$647,703</u></b>	<b><u>\$1,706,831</u></b>	<b><u>\$206,662</u></b>

- *These amounts represent the total contribution before adjustment for member contributions . Based on information provided by the County, the expected member contributions will be \$279,271 for the fiscal year beginning January 1, 2011.*



# Your Plan - December 31, 2009 Actuarial Valuation

	<b>General County</b>		<b>County Agency</b>	<b>Sheriff's Office</b>		<b>Dispatchers</b>	<b>Combined</b>
	<u>Billable</u>	<u>Non-Billable</u>		<u>Billable</u>	<u>Non-Billable</u>		
<b>A. Accrued Liability</b>							
Retiree	\$5,768,917	\$24,874,190	\$2,506,361	\$1,764,545	\$17,618,614	\$1,644,389	\$54,177,016
Active	6,641,093	9,701,044	2,534,438	5,194,271	8,731,417	1,120,413	33,922,676
<b>Total</b>	<b>12,410,010</b>	<b>34,575,234</b>	<b>5,040,799</b>	<b>6,958,816</b>	<b>26,350,031</b>	<b>2,764,802</b>	<b>88,099,692</b>
<b>B. Valuation Assets</b>	<b>3,629,993</b>	<b>10,114,773</b>	<b>909,138</b>	<b>2,465,826</b>	<b>9,338,032</b>	<b>1,308,268</b>	<b>27,766,030</b>
<b>C. Unfunded Accrued Liability: (A.4) - (B)</b>	<b>8,780,017</b>	<b>24,460,461</b>	<b>4,131,661</b>	<b>4,492,990</b>	<b>17,011,999</b>	<b>1,456,534</b>	<b>60,333,662</b>
<b>D. Funded Ratio: (B) ÷ (A.4)</b>	<b>29.3%</b>	<b>29.3%</b>	<b>18.0%</b>	<b>35.4%</b>	<b>35.4%</b>	<b>47.3%</b>	<b>31.5%</b>



# Current Issues and Implications

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- ◆ It is our understanding
  - ▶ The County has not contributed the full actuarial amount in the last couple of years, and
  - ▶ Benefits for current retirees are paid from the retiree health care trust



# Current Issues and Implications

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## ◆ Implications

- ▶ The 7.0% interest rate used in the calculations may no longer be appropriate (as defined by the GASB)
- ▶ Lowering the interest rate will increase the liabilities and the Annual Required Contribution reported in the financial statements
- ▶ May impact the County's ability to borrow



# Current Issues and Implications

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## ◆ Implications

- ▶ As of December 31, 2009, the liabilities for current retirees are 45% funded (i.e. for every \$1 of retiree liability there is \$0.45 in assets)
- ▶ If no additional amounts are contributed to the trust and benefit payments for current retirees continue to be paid from the trust, the trust is expected to be depleted in roughly 5-6 years



# Current Issues and Implications

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## ◆ Implications

- ▶ Once the trust is depleted the retiree health care plan will be financed on a pay-as-you-go basis (i.e. no pre-funding, benefits are paid when due)
- ▶ As long as the plan is in place, liabilities continue to be reported on the employer's financial statements



# Current Issues and Implications

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- ◆ If pre-funding does not continue at the recommended level:
  - ▶ The County will be faced with increasing costs (costs will be shifted to future taxpayers)
  - ▶ Benefits might have to be reduced
- ◆ If pre-funding is completely discontinued:
  - ▶ The County will be faced with increasing costs (costs will be shifted to future taxpayers)
  - ▶ Benefits might have to be reduced or eliminated



# Comparing Various Retiree Health Plans

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- ◆ Should consider both the liabilities and the assets when comparing plans
  - ▶ The liabilities indicate the value of the benefits that have been promised
  - ▶ The assets indicate the monies that have accumulated to back those benefits
  - ▶ Need to look at both when comparing plans (a plan that has more assets is not necessarily better off, if it also has higher liabilities)



# Comparing Various Retiree Health Plans

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- ◆ Consider differences between the provisions of the underlying retiree health benefits (i.e. when do benefits begin, who is covered, is there any cost sharing, etc.)
- ◆ Consider the demographics of the groups covered (i.e. are there lots of retirees, is the plan open or closed to new hires, etc.)



# Recommended Steps for the County

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- ◆ Continue pre-funding at the recommended level
- ◆ Continue to prepare annual actuarial valuations, because things can change significantly from one year to the next
- ◆ Monitor investment performance of the fund backing the promise
- ◆ Monitor whether the current retiree health benefits package is sustainable



# What Others Have Done

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- ◆ Some are pre-funding based on the full actuarial amount (this is the minority)
- ◆ Close the Defined Benefit retiree health plan to new hires and replace with a Defined Contribution Arrangement
  - ▶ Increases the Annual Required Contribution in the short term
  - ▶ Can be a long term savings if replacement plan is a cheaper plan



# What Other Have Done

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- ◆ Changes to the existing Defined Benefit health plan
  - ▶ Increase age and service requirement for receiving retiree health benefits
  - ▶ Reduce or eliminate spouse coverage
  - ▶ Introduce cost sharing features (i.e. retiree and/or spouse pay for a portion of the premium)
  - ▶ Cap on inflationary increases
  - ▶ Temporary benefit to Medicare eligibility



# What Others Have Done

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- ◆ Changes to the Underlying Medical Plan
  - ▶ Change in co-pays
  - ▶ Change in deductibles



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