



Bay County Retiree Health Care Plan

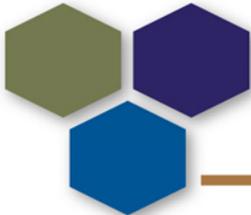
December 31, 2015 Actuarial Valuation

VEBA Board Meeting

March 14, 2017

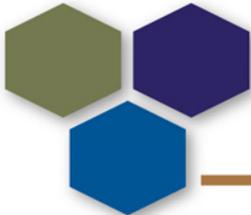
GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries
www.gabrielroeder.com



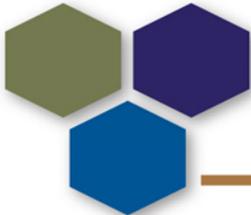
Agenda

- ◆ Retiree Medical in the News
- ◆ Background
- ◆ Components of the Actuarial Valuation
- ◆ GASB Statements No. 43 and 45
- ◆ Results of the 2015 Valuation
- ◆ GASB Statements No. 74 and 75
- ◆ Questions



Retiree Medical in the News

- ◆ Michigan Legislative Actions
 - ▶ Proposed Retiree Health Care Legislation (December 2016)
 - ▶ Public Act 530 of 2016



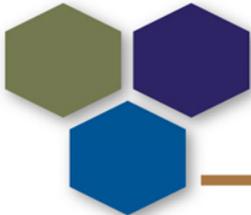
Background

◆ The role of the actuary

- ▶ 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
- ▶ Calculate 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

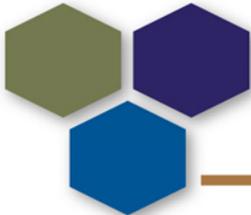


Background

- ◆ 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

◆ Pre-funding basics

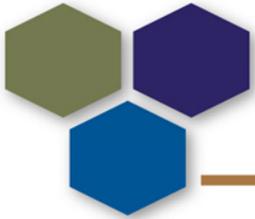
▶ Pay-as-you-go funding

- Pay benefits when they are due (no advance funding)
- Increasing cost method, as group matures, there are more retirees, and medical costs increase

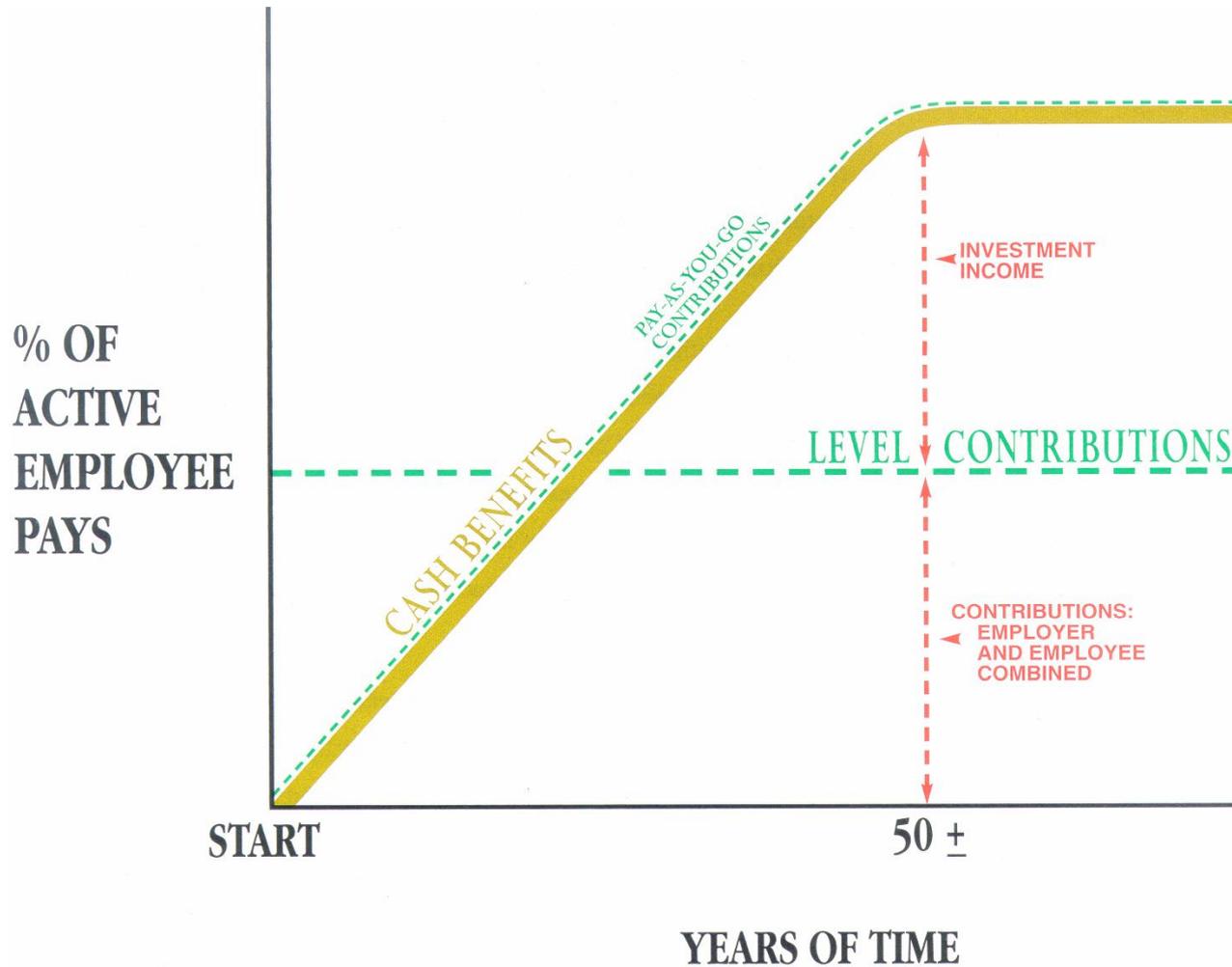
▶ Pre-funding

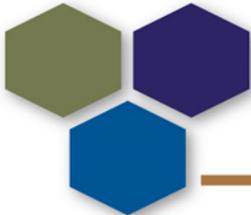
- Set aside money now, to pay for benefits later

◆ An actuarial valuation estimates the amount that needs to be set aside now to pay for benefits later



Background



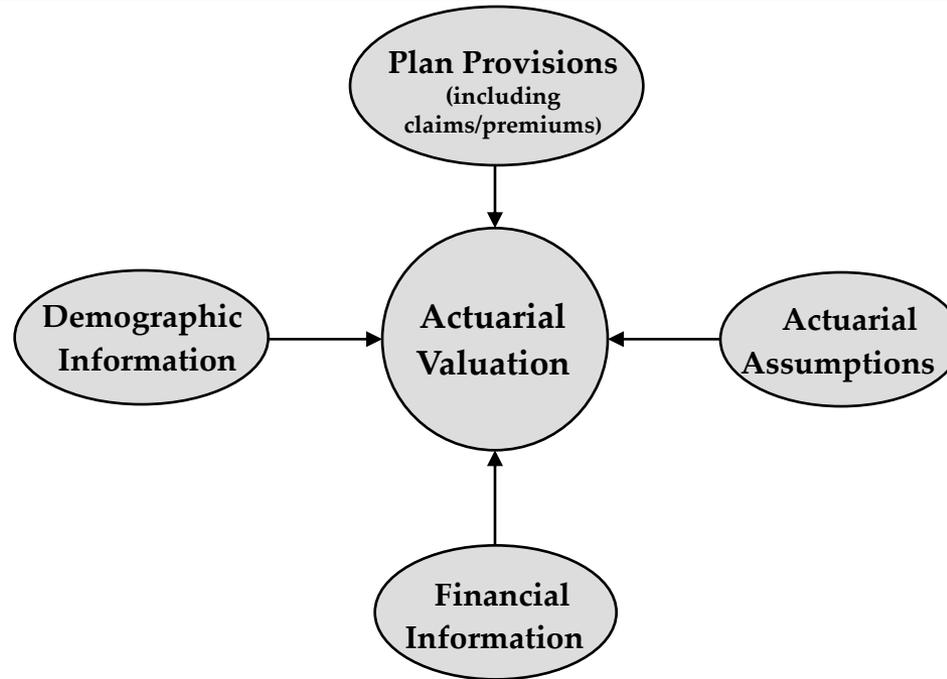


Background

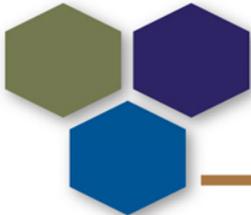
◆ Why pre-fund?

- ▶ 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
- ▶ Compliance with legal and/or accounting requirements
- ▶ Prudent thing to do

Components of the Actuarial Valuation



- ◆ Demographic Information, Financial Information & Plan Provisions (including claims/premium information) are provided by the plan sponsor.
- ◆ Actuarial Assumptions are recommended by the actuary and approved by the Board (typically the demographic assumptions are the same as those used in the pension valuation).
- ◆ The actuarial valuation is a mathematical process used to project future payments on account of specified benefit provisions. These projected payouts are converted to equivalent present value amounts and a corresponding dollar contribution is determined.



Components of the Actuarial Valuation

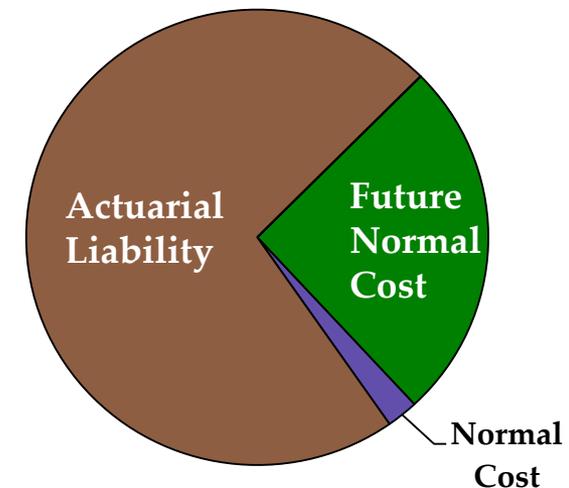
- ◆ **Present Value of Future Benefits** - Present Value (PV) of all future benefits payable to current participants (active, retired, terminated vested)

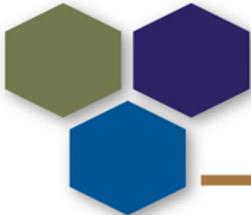
- ◆ **Actuarial Liability** - Portion of PV of Future Benefits allocated to prior years

- ◆ **Normal Cost** - Portion of PV of Future Benefits allocated to current year

- ◆ **Future Normal Costs** - Portion of PV of Future Benefits allocated to future years

Present Value of Future Benefits

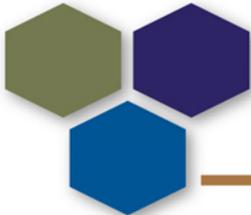




Components of the Actuarial Valuation

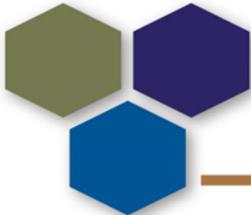
$$\begin{array}{r} \text{Actuarial Accrued Liability} \\ - \text{Actuarial Value of Assets} \\ \hline \text{Unfunded Actuarial Liability} \end{array}$$

$$\text{Annual Required Contribution} = \text{Normal Cost} + \text{Amortization of the Unfunded Liability}$$



GASB Statements No. 43 and No. 45

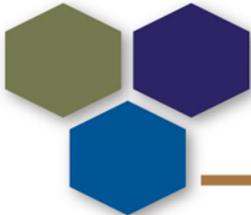
- ◆ The Governmental Accounting Standards Board (GASB) issued the following:
 - ▶ Statement No. 43 – Financial Reporting for Post-Employment Benefit Plans Other than Pension Plans (OPEBs) – this statement applies to the plan
 - ▶ Statement No. 45 – this statement sets the accounting standards for employers sponsoring OPEB plans



GASB Statements No. 43 and No. 45

◆ GASB Statements:

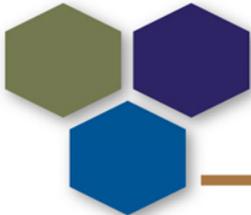
- ▶ Are accounting statements
- ▶ They require the calculation of an Annual Required Contribution (ARC)
- ▶ Entities that do not pre-fund will have large unfunded liabilities showing in their financial statements over time
- ▶ These unfunded liabilities could impact the entities ability to borrow



Valuation Comments

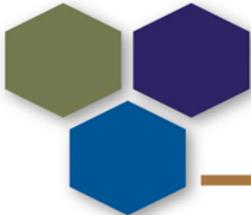
◆ Amortization Periods/Methods

Group	Period (Years)	Method
General/Sheriff	26	Level Dollar
DWS	26	Level % of Payroll
Library	26	Level Dollar
Medical Care Facility	24	Level Dollar
Road Commission	16	Level % of Payroll
BABH	22	Level % of Payroll



Valuation Comments

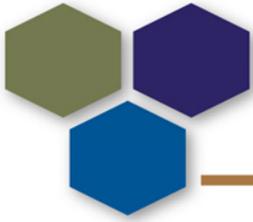
- ◆ Changes to the ARC varied by group due to:
 - ▶ Updated trend and discount rates
 - Discount rate updated from 6% to 5% for all except BABH who funds the full ARC
 - ▶ Claims experience
 - ▶ Adjustment to retiree benefit election assumption
 - ▶ Patient Protection and Affordable Care Act - adjustments for “Cadillac Plans”



Valuation Results – Retiree Health Annual Required Contributions

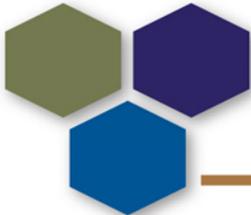
Fiscal Year	2015	2016	2017
Valuation Date	12/31/2013	12/31/2015	12/31/2015
General County	\$3,191,103	\$4,245,655	\$4,164,943
DWS	485,723	649,798	672,541
Library	376,853	312,494	306,893
Medical Care Facility	2,964,927	3,469,939	3,425,283
Sheriff's Dept	908,746	1,206,267	1,191,107
Road Commission	2,258,071	2,726,321	2,821,742
Total	\$10,382,817	\$12,610,474	\$12,582,509
BABH	\$197,394	\$0	\$0

Annual Required Contributions have increased for all groups except Library and BABH.



Results of the 2015 Valuation – Retiree Health Benefits

	<u>General County</u>	<u>DWS</u>	<u>Library</u>	<u>Medical Care Facility</u>	<u>Sheriff's Dept</u>	<u>Road Commission</u>	<u>Total</u>	<u>BABH</u>
Actuarial Accrued Liability	\$ 53,127,740	\$ 12,870,635	\$ 4,400,759	\$ 48,232,120	\$ 14,762,751	\$ 30,689,652	\$ 164,083,657	\$ 8,502,548
Actuarial Value of Assets	9,383,117	4,548,660	1,635,074	8,603,089	2,975,383	904,055	28,049,378	14,398,127
Unfunded Actuarial Accrued Liability	43,744,623	8,321,975	2,765,685	39,629,031	11,787,368	29,785,597	136,034,279	(5,895,579)
Funded Ratio	17.7%	35.3%	37.2%	17.8%	20.2%	2.9%	17.1%	169.3%
Fiscal Year 1/1/2016 - 12/31/2016								
Normal Cost	\$ 1,276,222	\$ 259,505	\$ 124,756	\$ 667,479	\$ 406,128	\$ 606,251	\$ 3,340,341	\$ 186,490
Amortization Payment	<u>2,969,433</u>	<u>390,293</u>	<u>187,738</u>	<u>2,802,460</u>	<u>800,139</u>	<u>2,120,070</u>	<u>9,270,133</u>	<u>(401,914)</u>
Total	4,245,655	649,798	312,494	3,469,939	1,206,267	2,726,321	12,610,474	-
Data								
Actives	311	51	34	215	77	56	744	199
Covered Retirees	186	29	13	164	47	91	530	69



The 1,000 ft. view of GASB 74/75

◆ The Good

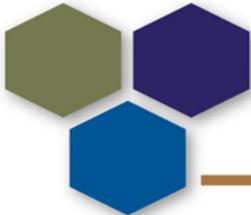
- ▶ Greater transparency; additional disclosures
- ▶ Greater uniformity of measurement

◆ The Bad

- ▶ Balance sheet recognition of the entire unfunded actuarial liability
- ▶ Overemphasis on a point-in-time liability
- ▶ Divorce from funding; no longer an ARC

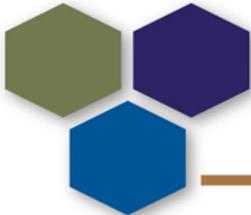
◆ The Ugly

- ▶ Additional complexity to an already complex subject
- ▶ Most 10-year trend information will start from scratch
- ▶ Volatile balance sheet liability and OPEB expense



The 1,000 ft. view of GASB 74/75

- ◆ GASB 45 – Expense Drives the Balance Sheet
 - ▶ Accountability is focused on whether the employer is making the Actuarially Required Contribution
- ◆ GASB 75 – Balance Sheet Drives Expense
 - ▶ Accountability is focused on the Net OPEB Liability
- ◆ Goals of GASB 74/75
 - ▶ Make OPEB promises transparent
 - ▶ Require detailed reconciliation of the Total OPEB Liability. Changes due to assumption changes, benefit changes and experience gains/losses are shown separately
 - ▶ Expanded disclosures regarding assumptions
 - ▶ Sensitivity analysis based on +/- 1% change to trend and +/- 1% change to discount rate



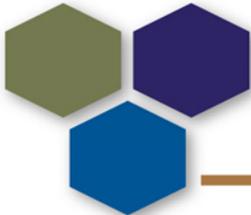
Effective Dates

◆ GASB 74 – Plan Reporting

- ▶ Effective for fiscal years beginning after June 15, 2016 (i.e. effective for December 31, 2017 year ends)
- ▶ GASB 74 would not apply to employers who do not have assets dedicated to OPEB.

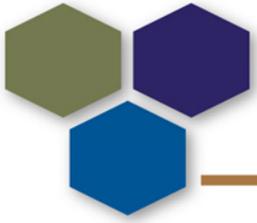
◆ GASB 75 – Employer Reporting

- ▶ Effective for fiscal years beginning after June 15, 2017 (i.e. effective for September 30 or December 31, 2018 year ends)

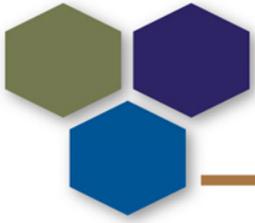


Terminology

GASB 43/45	GASB 74/75
Actuarial Accrued Liability	Total OPEB Liability
Actuarial Value of Assets	Fiduciary Net Position
Unfunded Actuarial Accrued Liability (UAAL)	Net OPEB Liability
Normal Cost	Service Cost
ARC & UAAL Amortization	Accounting expense is not tied to a funding contribution
Net OPEB Obligation – cumulative difference between expense and contributions	Net OPEB Liability & Deferred Inflows/Outflows of Resources



Questions?



- ◆ This presentation shall not be construed to provide tax advice, legal advice or investment advice.
- ◆ This presentation is intended to be used in conjunction with the actuarial valuation report issued on January 17, 2017. This presentation should not be relied on for any purpose other than the purpose described in the valuation report.