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Post Employment Benefits Other Than Pensions

Charles County Government

Prepared by Bolton Partners, Inc.

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Agenda

- What is OPEB, How Does it work
  - What are the applicable legal, accounting and actuarial standards
  - Key Assumptions
  - The time value of money
  - Discount rate discussion
- Results from last valuation
- The new GASB75 Standard
- What other jurisdictions are doing

Legal Accounting etc Requirements

- Contribution Requirements
  - None
- Legal Requirements
  - Not much
  - Some litigation but unlike pensions, benefits can be changed
- Collective Bargained Agreements
- Accounting Requirements
  - GASB43 Plan Accounting (Current)
  - GASB45 Employer Accounting (Current)
  - GASB74 Plan Accounting (2017 and later)
  - GASB75 Employer Accounting (2018 and later)

Accounting Status

- Last report was completed on November 14, 2014
- Reports Provided GASB45 results for FY2015 and FY2016
- The next valuation can be used for FY2017 under GASB45 and FY2018 Under GASB75
- The "Plan" will need a report under GASB74 For FY2017, and an update for FY2018

Expense Under the GASB45 Standard

- Determine the Present Value of Benefits (PVB)
  - The PVB is the $ amount that would be sufficient to pay all future promised benefits
  - Based on the assumptions
  - Does not include future hires
- For Employees Allocate the PVB between
  - Past service (the Actuarial Accrued Liability (AAL)) NC + past NC
  - This year (the Normal Cost)
  - The future (future Normal Costs)
  - Different actuarial funding methods for this allocation

The GASB 45 Expense Part II

- For retirees the AAL is equal to the PVB
- The Actuarial Accrued Liability Minus Trust Assets is the Unfunded Actuarial Liability (UAL)
- The annual accrual expense is equal to the
  - Normal cost plus
  - Amortization payment of the UAL

Key Charles County OPEB Valuation Assumptions and Font Size

- Discount Rate (40)
- Medical Trend (40)
- Election Rate (25)
- Percent married (25)
- Turnover (25)
- Retirement age (25)
- Life Expectancy (25)
- Pre Retirement Mortality (18)
- Disability (18)

The Impact of the Discount Rate $1,000 Payable in

	Estimated Bond Rate under GASB75	Last GASB45 Blended Discount Rate	Long Term Expected Rate of Return on Trust Assets
Years	3.50%	4.50%	7.75%
10	$ 708.92	$ 643.93	$ 474.05
20	$ 502.57	$ 414.64	$ 224.73
30	$ 356.28	$ 267.00	$ 106.53
40	$ 252.57	$ 171.93	$ 50.50

Discount Rate GASB45 Standard

- If there are contributions equal or greater than the Actuarial Required Contribution (ARC) the discount rate is the long term expected rate of return on trust assets
- Expected long term rate of return on trust assets *currently 7.75 percent*
- If there is no trust the GASB45 discount rate is equal to the long term expected rate on internal funds *currently 4.00 percent*
- If there are trust contributions between pay go funding and ARC use a blended discount rate

Current Discount Rate Assumptions

- Last Valuation 4.50%
- Based on a trust contribution of $750,000
- Target Contribution (7.75%) was $6,000,000
- About 12.5 percent of the target

Latest Valuation Results
4.50% discount rate ($ millions)

Actuarial Accrued Liability (AAL)	
Employees	$107.1
Retirees and Deferred Vested	$39.0
Total	$146.1
Assets	$2.4
Unfunded AAL	$143.7
Actuarial Required Contribution	
Normal Cost	$6.6
Amortization of Unfunded AAL	$7.3
Total	$13.9
Pay – Go Benefit Payments	$2.6
Net OPEB Obligation	$93.7

GASB75 Accounting

- Effective FY2018
- UAAL ($154.1 million) Replaces NOO ($93.7 million) on balance sheet
- Disclosure is more real time (must use actual assets not estimates)
- Discount rate is more prescriptive
  - Justify long term rate of investment return
  - Use government bond spot rate instead of long term rate of return on internal funds
  - More rules on blending
- the GASB75 blended rate would be lower

Discount Rate GASB75 Standard

- If there are contributions equal or greater than the Actuarial Determined Contribution (ADC) the discount rate is the long term expected rate of return on trust assets
- The long term rate of return on trust assets *currently 7.75 percent*
- If there is no trust the GASB75 discount rate is equal to a government bond index (last published rate 3.41%)
- If there are trust contributions between pay go funding and ADC use a blended discount rate
- Unknown but based on the current rates and plan we estimate that the GASB75 blended rate would be lower than under GASB45

Expected Return on Trust Assets Under GASB75

Asset Class	(1) Investment Allocation	(2) Expected Real Rate of Return	(3) [(1)x(2)]
Equity	55%	6.5%	3.55%
Options	10%	8.5%	0.85%
Fixed Income	35%	2.0%	0.70%
Total	100%		5.10%
Expected Long Term Inflation			2.50%
Expected Rate of Return			7.75%

What Other Jurisdictions are Doing

- Close the plan to new hires with fixed dollar contributions VEBA for new hires (Harford County except for Sheriffs since 2010)
- Separate higher premiums for retirees less than age 65 (Harford Schools)
- Indexed (CPI) dollar subsidies for new hires (Baltimore County since 2007)
- Tiered Subsidy Levels (Frederick County since 2008)
- Fixed dollar reimbursements for post 65 retirees (Stafford Schools)
- Eliminate Post 65 benefits (City of Chesapeake 2016)

Other OPEB Options

- EGWP Plan
- Health Care Exchanges
- Eliminate spouse benefit
- More stringent age and or service requirements
- Choice of Current Plan and Fixed Contribution to a VEBA

Required Disclosure

- This presentation has been prepared for the Charles County OPEB Trust for the purposes of presenting the results of the Actuarial Valuation It is neither intended nor necessarily suitable for other purposes. Bolton Partners is not responsible for the consequences of any other use. The Actuarial Valuation Reports dated November 13, 2014, discloses the data we relied upon, the actuarial methods and assumptions, and include other required disclosures under Actuarial Standard of Practice (ASOP) #41.

- Future medical care cost increase rates are unpredictable and could be volatile. They will depend upon the economy, future health care delivery systems and emerging technologies. The trend rate selected is based on an economic model developed by a health care economist for the Society of Actuaries. Future medical trend increases could vary significantly from the model. Model inputs will be updated periodically based on the best estimate of the economy at that time. Small changes in the model inputs can results in actuarial losses or gains of 5 to 15 percent of liabilities.