

State Center Community College District Board of Trustees

Summary of GASB 45 and 2012-2013 Valuation of Post-employment Benefits

July 2, 2013

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Overview

- The **G**overnmental **A**ccounting **S**tandards **B**oard issued Statement 45 (GASB 45) related to **O**ther **P**ost-**E**mployment **B**enefits (OPEB); "Other" means other than pensions
- OPEB include medical, dental, vision, prescription, disability and life insurance benefits provided to eligible retirees; does *not* include early retirement incentives
- GASB considers OPEB part of employees current compensation being recognized as benefits earned over total working service
- Employees of SCCCD can earn post-employment medical, dental and vision benefits over their career

GASB 45 – Employer Accounting

- Accounting and reporting for OPEB expenses and obligations
- Requires accrual accounting of the future benefit costs as a part of providing public services today
 - Annual expense shown on financial statements
 - Disclose OPEB liabilities on balance sheet as they accrue
 - Greater transparency in public financial reporting
 - Intergenerational equity: Full cost of benefits are accrued prior to retirement
- GASB 45 *does not* require funding OPEB liabilities, just reporting them
- Actuarial Valuation is required every two years for plans with more than 200 members
- Consequences for non-compliance
 - Adverse opinion by Board's auditor
 - Impact on bond rating
 - Difficulty in raising capital

Actuarial Valuation Process - OPEB

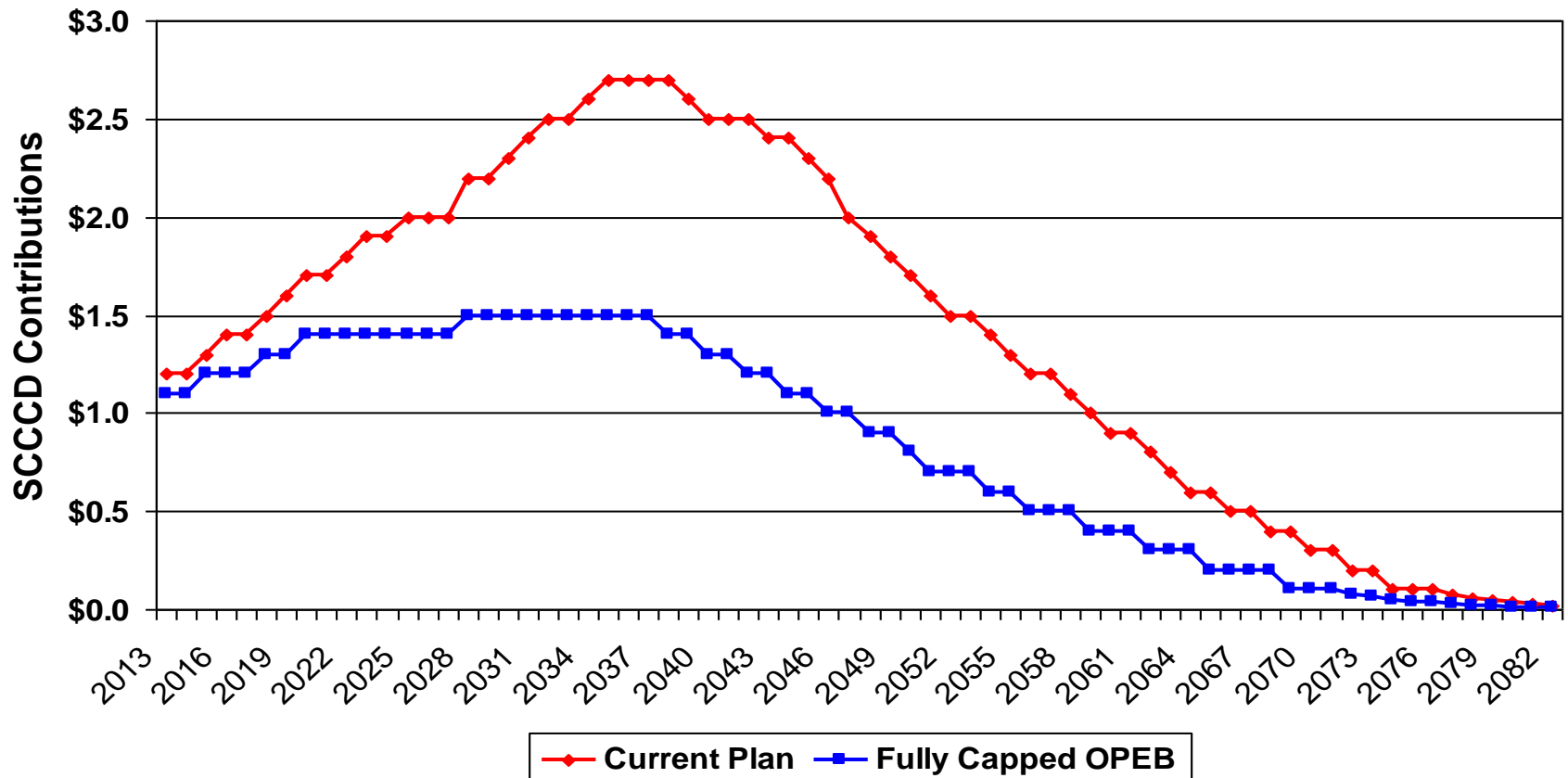
- Identify OPEB plans and criteria for receiving benefits
 - Benefits promised and eligibility conditions
- Demographic information – current retirees, future retirees, spouses and/or dependents
- Select appropriate actuarial and economic assumptions (*see Appendix*)
- Project future expected cash flows
 - (pay-as-you-go costs = net employer benefit payments)
 - (must reflect “age-adjusted premiums approximating claim costs ”)
(*see Appendix*)
- Discount cash flows to yield actuarial present value of benefits
- Allocate present values to time period of employment
- Develop GASB 45 measures and financial statement items

Summary of Plan Provisions

	Certificated	Classified	Board Members
Eligibility	<p>Retiree age 55, and</p> <ul style="list-style-type: none"> - 10 years of service (pre-65 benefits) - 15 years of service (post-65 benefits under Option1) 	<p><u>Option 1</u>: retiree age 50,</p> <ul style="list-style-type: none"> - 10 years, pre-65 benefits - 15 years, pre-70 benefits - 20 years, life time benefits <p><u>Option 2</u>: retiree age 60 and 10 years of service</p>	<p>Retirees who serve more than 12 years in office after January 1, 1981 and elected before January 1, 1995</p>
Subsidized Benefits	<p>Medical coverage for retiree, dependents, and <u>surviving spouse</u></p> <p>Option 1</p> <ul style="list-style-type: none"> - Pre-65: \$2,400/yr. - Post-65: \$2,570 with 2% annual increases <p>Option 2</p> <ul style="list-style-type: none"> - Pre-65: 70% of active rate (currently \$8,644/yr.) - Post-65: N/A 	<p>Medical coverage subsidy for retiree and <u>dependents</u></p> <p>Option 1</p> <ul style="list-style-type: none"> - Pre-65: \$2,400/yr. - Post-65: \$2,008 with 2% annual increases <p>Option 2</p> <ul style="list-style-type: none"> - Pre-65: 70% of active rate (currently \$8,644/yr.) - Post-65: N/A 	<p>Lifetime medical, dental, vision, and life coverage as provided to full-time regular Classified employees, as outlined in Board Policy 2730.</p>

OPEB Payout Projection

("Pay-As-You-Go" Costs in \$ Millions)



OPEB Payout Projection (continued)

Plan Provisions, Demographics and Assumptions results in the estimated benefit payment stream for all current Participants for the duration of the OPEB

Fiscal Year	(\$ in millions) Projected Employer Provided Benefits		Present Value of Future Benefits (pvFB)
	Current Plan	Capped Plan	
2013	1.2	1.1	
2014	1.2	1.1	
⋮	⋮	⋮	
2033	2.5	1.5	
2034	2.6	1.5	
⋮	⋮	⋮	
2050	1.7	0.8	
2051	1.6	0.7	
⋮	⋮	⋮	
	<u>\$ 98.6</u>	<u>\$ 56.9</u>	

The pvFB is the discounted value of all projected future benefits. Implicit rate subsidies (see *Appendix*) are factored into the present value.

Key GASB 45 Measures - Definitions

OPEB Liabilities

Present Value of Future Benefits (pvFB) – past and future service

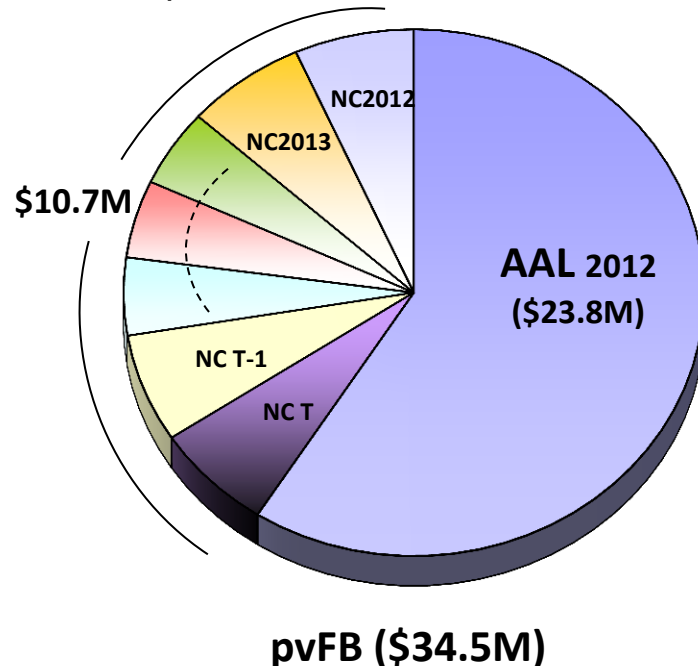
- Total projected costs to finance all future benefits based upon members' past and future service

Actuarial Accrued Liability (AAL) – past service

- Portion of the pvFB earned (or accrued) based on members' service as of valuation date

Normal Cost (NC) – current service

- Portion of the pvFB attributable to services rendered during the year and increased eligibility



Key GASB 45 Measures - Definitions

(continued)

Annual Expense

Annual required contribution (ARC)

- Benchmark for benefits accrual accounting purposes only; there is no requirement to prefund
- Represents the level of annual employer contribution required to fund the OPEB cost
- Includes both the value of benefits earned during the year (NC) and amortization of the Unfunded AAL (UAAL) over a period up to 30 years; the UAAL is shown in footnote disclosures

Annual OPEB Cost

- The accrual cost of the employer's participation in an OPEB plan for financial reporting purposes
- Generally equal to the ARC adjusted for interest and amortization of the Net OPEB Obligation

Net OPEB obligation (NOO)

- The cumulative difference between the annual OPEB costs and actual employer contributions
- The NOO is recognized on the employer's balance sheet
- Fully funding the ARC results in a zero NOO

Key GASB 45 Measures - Results

Measurement Date	July 1, 2010	July 1, 2012
Present Value of Future Benefits		
Actives	\$25,199,654	\$26,314,761
<u>Retirees</u>	<u>8,004,496</u>	<u>8,161,157</u>
Total	\$33,204,150	\$34,475,918
Actuarial Accrued Liability		
Actives	\$14,478,035	\$15,640,932
<u>Retirees</u>	<u>8,004,496</u>	<u>8,161,157</u>
Total	\$22,482,531	\$23,802,089
Normal Cost	\$928,282	\$951,551
GASB 45 Measures	2010-2011 FY	2012-2013 FY
Annual Required Contribution (ARC)	\$1,994,296	\$2,051,458
Annual OPEB Cost	\$1,987,867	\$2,018,964
Net OPEB Obligation	\$1,490,092	\$3,103,433

Key GASB 45 Measures - Results

(continued)

Fiscal Year Ending	June 30, 2011	June 30, 2013
Annual Required Contribution (ARC)	\$1,994,296	\$2,051,458
Interest on Net OPEB Obligation	23,840	120,491
Adjustment to Annual Required Contribution	(30,269)	(152,985)
Total Annual OPEB Cost (AOC)	\$1,987,867	\$2,018,964

Fiscal Year Ending	June 30, 2011	June 30, 2013
Net OPEB Obligation (NOO) as of July 1	\$476,801	\$2,409,826
Annual OPEB Cost	1,987,867	2,018,964
<i>Estimated</i> Annual Employer Contribution*	(974,576)	(1,325,357)
Net OPEB Obligation as of June 30 (estimated)	\$1,490,092	\$3,103,433

* Assumes only pay-as-you-go contributions are funded.

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Summary of Actuarial Assumptions

Category	Assumption
Discount Rate	5.0%
Medical Inflation	7.5% in the 2012/2013 fiscal year, trending down .5% per year to 5.0% in the 2017/2018 fiscal year and beyond
Dental & Vision Trend	5.0% for all future years
Mortality	Sex distinct according to RP-2000 Combined Healthy Mortality Table with improvements projected to 2015
Morbidity	2% increase in medical claims on average, as participants age
Retirement and Employee Turnover Rates	Uses studies performed for CALPERS and CALSTRS
Future Retiree Elections	Coverage consistent with active election
Amortization (Payment) Period	30 years for amortizing Unfunded Actuarial Accrued Liability

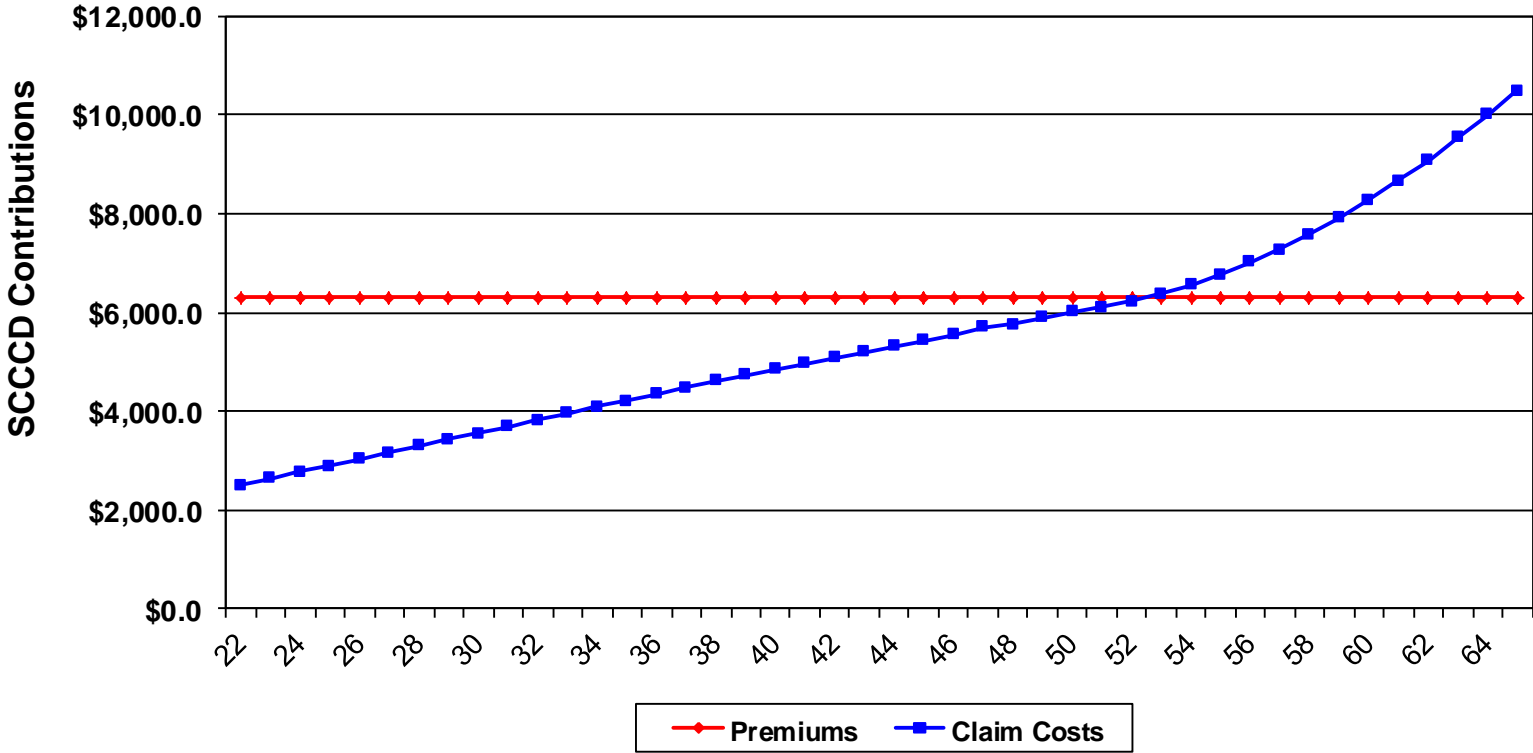
The Hidden Cost of “Implicit Rate Subsidies”

What is an “Implicit Rate Subsidy”?

- When active and retiree healthcare claims are pooled, it is recognized that younger individuals (actives) generally consume less medical costs, and older individuals (retirees) generally incur higher medical costs.
- The result – an “average” medical premium cost which somewhat overstates the medical cost of current employees (actives) and somewhat understates the medical cost of retirees – **the younger tend to subsidize the older.**
- Thus, **even “retiree pay all” plans may actually have a hidden subsidy**, the “implicit rate subsidy”, as retirees are actually paying less than the full cost of coverage.
- The average (blended) premium plus retiree contributions may not cover the true underlying cost of retiree benefits.
- Therefore, the employer’s share of OPEB costs to retirees must include the underpayment by which retiree costs are subsidized through higher employer costs on behalf of active employees.

The Hidden Cost of “Implicit Rate Subsidies”

Medical Benefits – Premium Level vs. Claim Cost, by Age



Thank you!

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