

Overview of GASB 45

Chappaqua Central School District

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- 20+ Years Experience - Life, Accident & Health
- Services – Actuarial Consulting & Insurance/Reinsurance Brokering
- Clients: Insurance Companies, HMOs, Reinsurers, Managed Care Companies, Government Entities and Employers
 - Credentials: ASA, FCA, MAAA, CFA®
 - Other Credentials: Licensed broker and reinsurance intermediary
- Actuarial Society of Greater New York
 - Positions: Chairperson CE (2007-09), President Elect (2010), President (2011)
- Society of Actuaries - Section Councils:
 - Current: Reinsurance Section, Entrepreneurial Actuarial Section
 - Retired: Actuary of the Future Section
 - NAIC/AAA/CCA Committees & Task Forces
 - Health Reform, Reserving, Risk Based Capital, etc.
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Agenda

- GASB 45 Overview
- Information Required for Valuation
- Key Financial Information
- Chappaqua Central School District Results
- What do the liabilities mean?
- Open Discussion



What is GASB 45?

- Government Accounting Standards Board issued Statement No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions
 - GASB 43 applies to the plan itself
 - GASB 45 applies to the plan sponsor's financial statements
- Requires public agencies, including school districts and county offices of education (COE), to report their costs and obligations for post-employment healthcare and other post-employment benefits (called "OPEBs")
- Reporting - Similar to pensions
 - GASB 25 – Plan; GASB 27 – Employer
- Recognized as a current cost during the working years of an employee (similar to pension) rather than after they retire.



Retiree Health & Life Valuations

History of OPEB Valuations

- | | | |
|-------------------|----------|---------------|
| ■ Employers | FAS 106 | (Early 1990s) |
| ■ Multi-Employers | SOP 92-6 | (Last 1990s) |
| ■ Municipalities | GASB 45 | (Today) |



Impact on School Districts & County Offices

- Identify and disclose OPEBs as an expense and liability on their financial statements for the first time.
- This means each district or county office will have to evaluate whether they have an OPEB liability
- Need to have an actuarial valuation done to determine the amount of the unfunded liability for their financial statements.
- Each affected district and county office will have to address how best to manage this liability for the future.



Difference: GASB vs. Pay-As-You-Go

- GASB – Level to gradual growth over time since accruing future costs today
- Pay-As-You-Go – Increases as population of retirees increase over time
- Impact
 - Pay-As-You-Go: Manage on a year by year basis
 - GASB: Reflect future benefit costs now resulting in potential reduction in retiree benefits to be offered
 - Accrued Liabilities – 15 to 40 times current annual costs
 - Accrual Expense – 1 to 4 times current annual costs



Implications for Current Employees

- Increases expense and liabilities to be recognized
 - Impact of accrual accounting
 - Most currently fund on pay-as-you-go basis
- Increase pressure to reduce costs of benefits
 - Actives & Retirees
 - Cost Containment, Plan Changes, Increase Retiree Cost Sharing
- Impacts Budget Process
- Impacts Collective Bargaining
 - OPEB is part of employee compensation



Implementation Dates

- **Depending on the district or county office size, the compliance dates for GASB 45 are as follows:**
 - 2007-08 fiscal year: Districts/COEs with total revenue of \$100 million or more must comply in the fiscal year after December 15, 2006.
 - 2008–09 fiscal year: Districts/COEs with annual revenue between \$10 million and \$100 million must comply in the fiscal year after December 15, 2007.
 - 2009–10 fiscal year: Districts/COEs with annual revenue less than \$10 million must comply in the fiscal year after December 15, 2008.
- *Figures based on 1999 fiscal year.*
- **Frequency:**
 - 200+ members (every 2 years)
 - Less than 200 members (every 3 years)



Key Financial Data

- Annual OPEB Costs (annual expense)
- Net OPEB Obligation (balance sheet liability)
- Actuarial Liability
- Funding Status
- Unfunded liabilities
 - May impact bond ratings



Annual OPEB Costs (AOC)

- Employer's Expense
- Annual Required Contributions (ARC)
 - Normal Cost (Service Cost): Actuarial valuation
 - Amortization of Unfunded Actuarial Accrued Liability (30 years)
 - Amortization of gain/loss and plan changes depending on plan methods
 - *This does not refer to actual contribution requirements, but to employer's accrual expense.*
- Plan Adjustments
 - Contributions going up
 - ARC going down



OPEB – What is Included?

- Medical
- Dental
- Vision
- Hearing
- Prescription drugs
- Life insurance
- Long-term care
- Long-term disability
- Death benefits
- Other Benefits (e.g., Group Legal)



Necessary Data to Complete Valuation

- Summary of Plan Offerings
- Census Information
- Plan Costs
- Retiree Contribution Rates
- Benefit Eligibility
- Actuarial Assumptions



Actuarial Assumptions

- Benefit costs – Pre 65 vs Post 65 (e.g., Consortium plan, Emblem)
- Healthcare cost trend rate (e.g., sliding scale from 9% to 5%)
- Interest discount rate (e.g., 6%)
- Retirement rates
- Turnover rates
- Disability rates
- Mortality rates
- Aging Assumptions (Age/Sex Factors)
- Asset return on investments (if funded)
- Salary increases, if applicable
- Plan Participation %
- Actuarial cost methods (e.g., projected unit credit)



What makes liabilities increase?

- Increase in health care costs and inflation (trend)
- Reduction in discount interest rates
- More early retirements
- Lower turnover (non-vested)
- Mortality improvements



Key Statistics – Chappaqua Central School District

■ Actuarial Data

- Implementation (July 1, 2008): UAL = \$92.9 million
- July 1, 2009: UAL = \$87.8 million

■ ARC (7/09 to 6/10): \$6.9 million

■ Pay-As-You-Go (7/09 to 6/10): \$3.4 million

■ Net OPEB Obligation:

- \$4.2 million as of 6/30/09
- \$7.1 million as of 6/30/10

■ Total Lives

- | | |
|------------|------------|
| ● Actives | 656 |
| ● Retirees | <u>343</u> |
| ● Subtotal | 999 |



Additional Statistics

- New York State Teachers Retirement System (TRS) and Employees' Retirement System (ERS)
- Retiree Benefits:
 - Medical benefits (pre-65 & post-65 retirees)
 - Medicare Part B Premium Reimbursement (post-65 only)
 - Select individuals with life insurance
- Retiree Contribution Rates: 5-11%
- 1% Increase in Discount: 13.4% Decrease in UAL
- 1% Increase in Trend: 15.9% Increase in UAL
- Additional scenarios in valuation report (UAL)
 - 55 Scenarios – Valued as of July 1, 2009



UAL – 30 Sample Scenarios

(Discount Rate & Healthcare Inflation)

Ultimate Healthcare Cost Trend Scenarios	<u>Discount Rate Scenarios</u>					
	<u>2%</u>	<u>3%</u>	<u>4%</u>	<u>5%</u>	<u>6%</u>	<u>7%</u>
5%	\$ 180,828,103	\$ 147,211,330	\$ 121,970,916	\$ 102,704,768	\$ 87,768,536	\$ 76,018,656
6%	\$ 214,499,618	\$ 171,897,426	\$ 140,355,581	\$ 116,599,883	\$ 98,416,671	\$ 84,284,873
7%	\$ 258,004,865	\$ 203,383,034	\$ 163,517,042	\$ 133,901,883	\$ 111,529,737	\$ 94,358,896
8%	\$ 314,802,057	\$ 243,946,626	\$ 192,980,533	\$ 155,647,461	\$ 127,822,739	\$ 106,740,791
9%	\$ 389,730,927	\$ 296,739,831	\$ 230,831,886	\$ 183,238,747	\$ 148,252,408	\$ 122,092,792



UAL – 25 Sample Scenarios

(Retiree Contribution Rate & Healthcare Inflation)

Future Retirees Contribution Rates		<u>Ultimate Healthcare Cost Trend Scenarios</u>				
		<u>5%</u>	<u>9%</u>	<u>11%</u>	<u>13%</u>	<u>15%</u>
7.5%	\$	87,318,545 \$	147,346,694 \$	205,690,308 \$	302,767,461 \$	470,676,291
10.0%	\$	86,247,238 \$	145,165,615 \$	202,378,645 \$	297,519,806 \$	461,997,124
20.0%	\$	81,962,006 \$	136,441,296 \$	189,131,992 \$	276,529,188 \$	427,280,453
30.0%	\$	77,676,774 \$	127,716,977 \$	175,885,338 \$	255,538,571 \$	392,563,783
40.0%	\$	73,391,542 \$	118,992,659 \$	162,638,685 \$	234,547,953 \$	357,847,112

Note: Reflects scenarios of changing future retiree contribution rates (not current retirees).



Open Discussion

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