

Town of Sudbury, Massachusetts

Postemployment Benefits Other Than Pensions

Board of Selectmen Presentation

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Agenda

- What is GASB 45?
- The GASB 45 Actuarial Model
- Substantive Plan
- GASB 45 Methods
- GASB 45 Assumptions
- Projected Pay-As-You-Go Costs
- Summary of Key GASB 45 Results

Agenda

- Options for Funding OPEB Liabilities
- Impact on Net OPEB Obligation
- How Can Sudbury Control Liabilities?
- Retiree Health Care Commission
- Questions

What is GASB 45?

- Requires accrual accounting for **O**ther **P**ost **E**mployment **B**enefits (**OPEB**)
- Benefit valued is retiree medical, dental, life insurance, etc.
- Currently financed on a pay-as-you-go (PAYG) basis plus nominal contribution to OPEB trust
- GASB 45 **does not** require funding OPEB liabilities, just reporting them

What is GASB 45?

- Perform actuarial valuation *every other year*
- Develop expense called Annual Required Contribution (*ARC*)
 - Value of benefits earned by active employees in current year (*Normal Cost*)
 - Amortization of existing unfunded actuarial accrued liability (*AAL*)
- Disclose information about plan, plan assets and liabilities

The GASB 45 Actuarial Model

- Plan benefits = Substantive Plan
 - The plan as communicated to members
- Actuarial Cost (Funding) Method
- Actuarial Assumptions and Methods
 - Explicitly applicable to postemployment benefits
 - Demographic
 - Economic

Substantive Plan

- Eligibility
 - Attainment of age 55 with 10+ years of service
 - 20 or more years of service
 - Age 60 with 10+ years of service for hires after April 1, 2012
- Coverage through Group Insurance Commission (GIC) medical plans
- Retirees contribute 50% of total premium
- \$1,000 life insurance coverage

GASB 45 Methods

- Actuarial cost method
 - Projected Unit Credit
 - used most often
 - Prorates liability based on service to eligibility age
- Amortization method
 - Mortgage-like method to pay off Unfunded Actuarial Accrued Liability (UAL)
 - Level dollar amount over thirty years
 - Open amortization period

GASB 45 Assumptions

- PAYG discount rate assumption - 3.5%
 - Based on feedback from auditors
 - Based on long-term rate of return on General Fund assets used to satisfy obligation
- Fully funded assumption – 8%
 - Based on long-term rate of return on Trust assets used to satisfy obligation
- Higher discount rate means lower liabilities and ARC

GASB 45 Assumptions

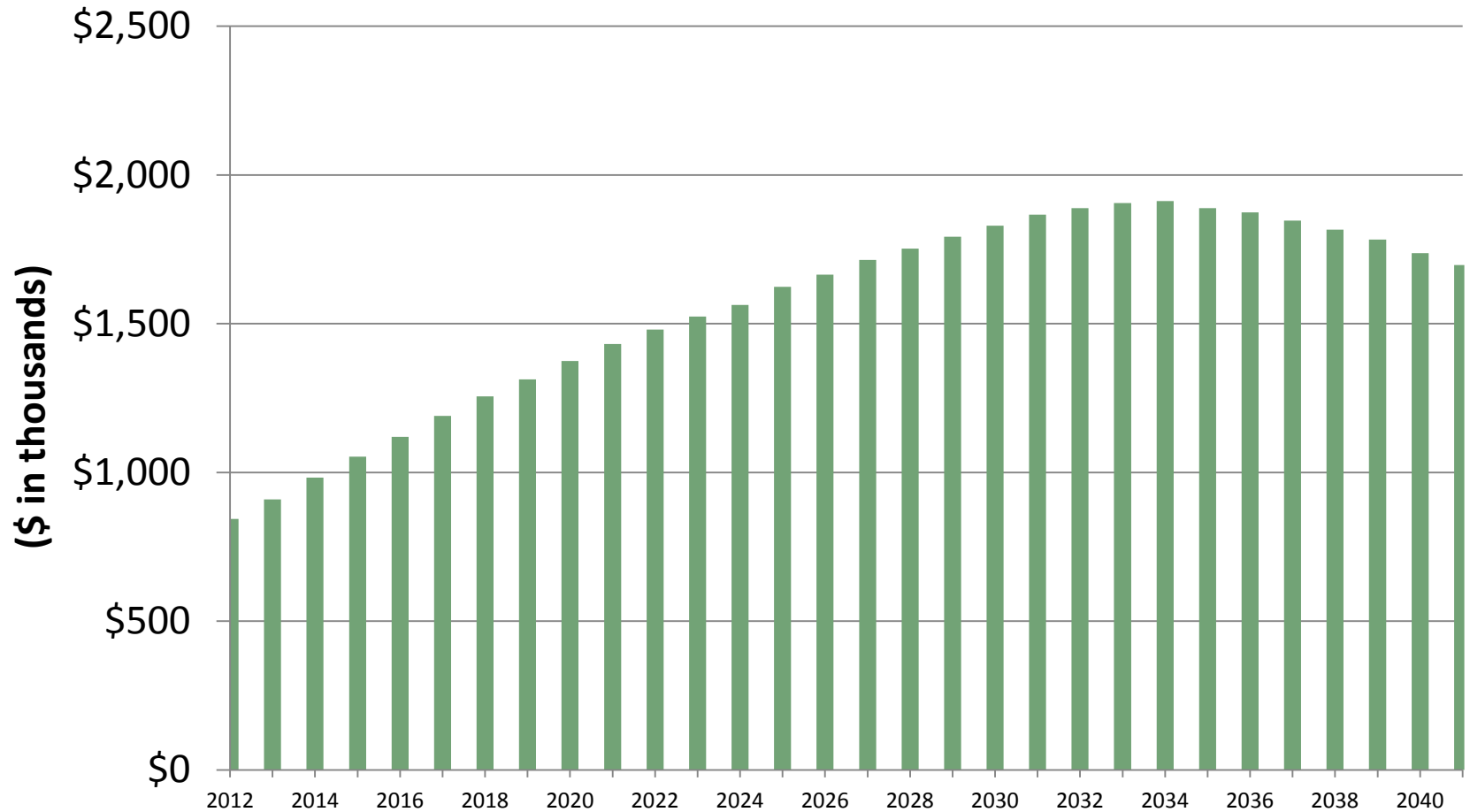
- Health care cost trend rate (9% - 5%)
- Participation rates – 70%
- Spouse coverage – 55%
- Demographic
 - Retirement – distinguished by employee type
 - Turnover – distinguished by employee type
 - Mortality – includes mortality improvement

GASB 45 Assumptions

Implicit Subsidy

- Benefits provided to both actives and retirees
- Projection of future retiree benefits based on age-adjusted premiums for retirees
- Exception for community-rated plan, e.g. GIC
 - Premium rates reflect projected health experience of all participating employers
 - Provider charges the same unadjusted premiums for both active and retirees

Projected Pay-As-You-Go Costs (closed group)



Summary of Key GASB 45 Results (\$ in thousands)

Valuation Date	July 1, 2011		July 1, 2009	
	PAYG	Pre-Funded	PAYG	Pre-Funded
Discount Rate	3.50%	8.00%	4.00%	8.00%
Unfunded Actuarial Accrued Liability	34,147	17,046	36,411	20,746
ARC	3,664	2,117	3,515	2,392
Expected Benefit Payments	844	844	1,324	1,324

Summary of Key GASB 45 Results (\$ in thousands)

Gain / (Loss) Source	Gain / (Loss)
Demographic changes and premium rates	(\$7,771)
Coverage change to GIC medical plans	15,959
Change to discount rate from 4% to 3.5%	(2,990)
Total Gain / (Loss)	\$5,198

Summary of Key GASB 45 Results

- Annual OPEB Cost (AOC) is sum of
 - Annual Required Contribution (ARC)
 - Interest on Net OPEB Obligation
 - Adjustment
- Net OPEB Obligation (NOO)
 - difference between AOC and Contributions
 - Cumulative difference disclosed on financial statements
- NOO is \$10.78 million as of June 30, 2012

Options for Funding OPEB Liabilities

- Pay-as-you-go
 - Must use discount rate close to return on cash
 - Potential ramification on bond rating
- Fully Pre-Fund
 - Requires Irrevocable OPEB Trust
 - Allows use of higher discount rate
- Partially Pre-Fund
 - Requires Irrevocable OPEB Trust
 - Blended discount rate

Impact on Net OPEB Obligation

Net OPEB Obligation = AOC less Contributions

- Pay-as-you-go
 - Multiplies rapidly
- Fully Pre-Fund
 - No additional Net OPEB Liabilities to report
- Partially Pre-Fund
 - Controlled

How Can Sudbury Control Liabilities?

- Move to the GIC decreased liability by \$15.96 million
- Pension Reform
 - Increases minimum retirement age
 - from age 55 to age 60 for post April 1, 2012 hires
 - Delayed retirements generally reduce costs
 - Fewer years to provide retiree medical coverage while covering replacement employee
 - Changes that impact future hires only take years to be meaningful

How Can Sudbury Control Liabilities?

- Pre-Fund OPEB in Irrevocable OPEB Trust
 - OPEB Trust established in 2006
 - Contribute any realized health insurance savings up to the budgeted amount
 - Use of slightly higher blended discount rate in the future
- Municipal Health Care Reform
 - Requires Medicare-eligible retirees to enroll in Medicare-supplement plans

How Can Sudbury Control Liabilities?

- Reimbursement under Section 9A1/2 of 32B
 - Reimbursement for premiums paid by Town for retirees with municipal service elsewhere
 - Will be offset by reimbursements paid by Town for terminated employees retired elsewhere

Retiree Health Care Commission

“The goal of the commission is to investigate and study retiree healthcare and other non-pension benefits. This review of retiree health care benefits offers an opportunity to reduce the cost of these benefits in the future to both preserve the benefit for public employees and to prevent budget cuts in other areas as health care costs continue to escalate.”

Retiree Health Care Commission

- Consider benefit adequacy and cost
- Cost-sharing arrangements
- Other aspects of the cost to provide health care to public employees and retirees
- Recommendations expected by the end of November, 2012

Questions?

