Overview of OPEB Valuation Results
Date: July 1, 2016

Aon Hewitt
Retirement and Investment Consulting

Presentation to Montgomery County Government

Empower Results®

Agenda

- Review Valuation Results
- Reconciliation of Actual vs. Expected
- 6 Year Projections

Valuation Results - Introduction

- MCG subsidizes the cost of retiree healthcare benefits (OPEB)
  - Explicit subsidy – total premium rates minus retiree contribution
  - Implicit subsidy – true costs for retirees minus retiree contribution minus explicit subsidy
- Plans covered and valued for GASB 45:
  - Medical (CareFirst POS (High and Low options), CareFirst Indemnity (closed to new members), United Healthcare Select, and Kaiser HMO)
  - Rx
  - Vision
  - Dental
  - Life Insurance
- Valuation date - July 1, 2016
- Last valuation - July 1, 2014

Demographics

- Participant data:

Number of Participants as of July 1, 2016				
	Actives[1]	Retirees and Survivors	Retiree Spouses[2]	Total
Medical	10,156	5,059	2,795	18,010
Prescription [3]	10,156	4,706	2,570	17,432
Dental	10,156	5,583	3,156	18,895
Life	10,156	5,810	N/A	15,966

Number of Participants as of July 1, 2014				
	Actives[1]	Retirees and Survivors	Retiree Spouses[2]	Total
Medical	9,942	4,834	2,729	17,505
Prescription [3]	9,942	3,779	2,286	16,007
Dental	9,942	5,306	3,067	18,315
Life	9,942	5,590	N/A	15,532

[1] We assumed that 87% of these active employees will have medical, prescription and dental coverage at retirement and that 100% will have life insurance coverage at retirement

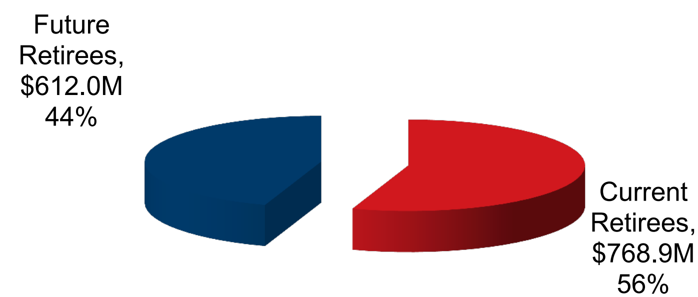
[2] Industry ratios of spouses and children per tier in a 3-tier structure were used to estimate the number of dependents (reflected implicitly in the claims costs).

[3] The counts for retiree members with prescription drugs do not reflect the retiree members in the Kaiser or CareFirst Indemnity plans. Prescription drugs are not a separate election for these members.

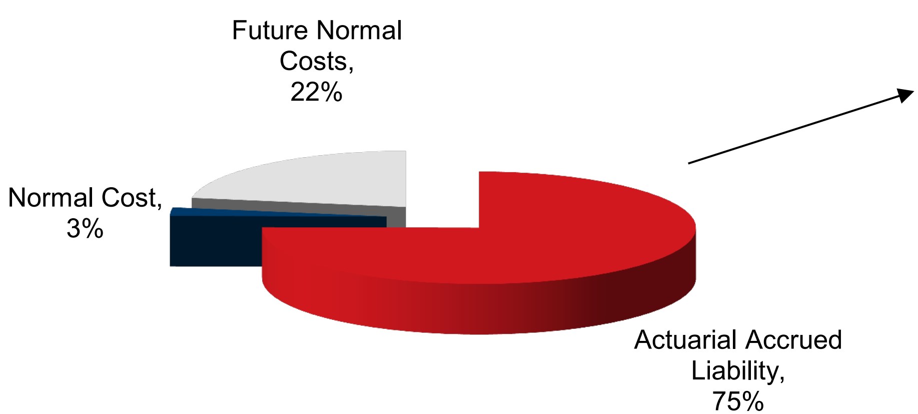
Valuation Results – Liabilities and Assets

	($ millions)						
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Discount Rate	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Present Value of Projected Benefits	$1,817.0	$1,905.1	$1,994.1	$2,083.3	$2,173.0	$2,262.1	$2,350.4
Actuarial Accrued Liability	$1,380.9	$1,476.3	$1,576.2	$1,680.7	$1,790.5	$1,905.7	$2,027,0
Assets	$334.9	$410.9	$493.9	$583.5	$680.3	$784.6	$896.9

Actuarial Accrued Liability (FY2017)



Present Value of Projected Benefits (FY2017)



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Valuation Results – ARC, Contributions and NOO

	($ millions)			
	FY 2015	FY 2016	FY 2017	FY 2018[4]
Annual Required Contributions (ARC)	$107.1	$112.5	$112.7	$110.0
Admin	$0.2	$0.2	$0.2	$0.2
Normal Cost	$41.4	$44.5	$44.1	$47.4
Amortization of UAAL	$58.0	$59.9	$60.6	$54.2
Interest to EOY	$7.5	$7.9	$7.8	$8.2
Explicit Subsidy ("Pay-go")[1]	$39.2	$42.7	$37.5	$41.7
Implicit Subsidy	$16.8	$18.3	$16.1	$17.9
Additional Contributions[2]	$43.7	$49.3	$50.4	$50.4
Net OPEB Obligation (NOO)[3]	$440.5	$450.1	$467.9	N/A

[1] Reflect the expected payments for current retirees (and retiring employees) based on the premium equivalent rates developed by the County. Medicare Rx subsidy proceeds are expected to be used by the County to offset the pay-go costs.

[2] Actual contributions for FY 2015 and FY 2016 includes the combined subsidy and additional contribution. Budgeted contribution for FY 2017 and FY 2018.

[3] FY 2015 and FY 2016 provided by the County. Estimates for FY 2017 and FY 2018.

[4] Estimated – for funding purposes only.

Reconciliations – Actual vs. Expected Results

Results as of July 1, 2016 (2017 Fiscal Year) ($ millions)		
	UAL	ARC
Expected July 1, 2016 Results[1]	$1,025.9	$115.5
Actual July 1, 2016 Results	$1,046.0	$112.7
Difference	$20.1	($2.8)
Factors Contributing to Difference:		
New Demographics and Experience	($31.4)	($3.6)
Asset (Gain)/Loss	$43.8	$2.7
New Claims and Trends	($16.7)	($4.1)
New Demographic Assumptions	$24.4	$2.2
Total	**$20.1**	**($2.8)**

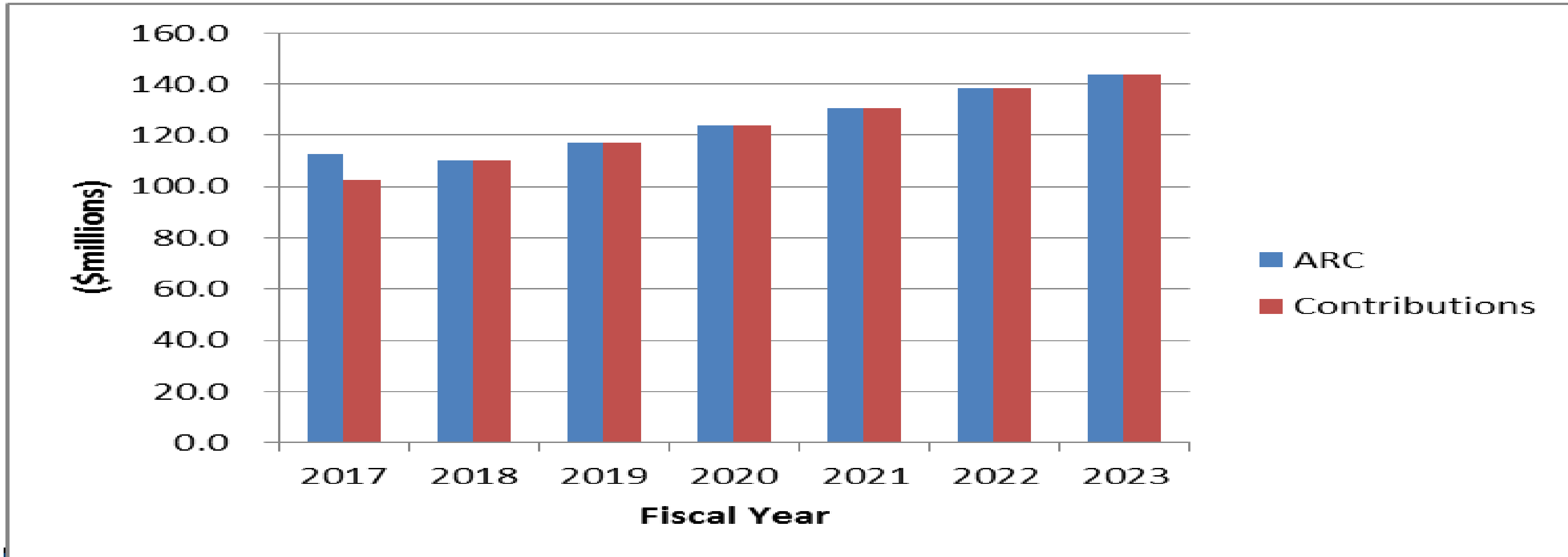
[1] Expected 2016 results based on the 07/01/2014 Valuation actuarially projected to 07/01/2016. i.e., results

(a) assume no change in the population or assumptions from the 2014 Valuation,
(b) reflect the expected increase in GASB OPEB costs due to employees accruing two additional years of service
(c) also reflect the expected increase in costs because future benefits are now two years closer to being paid.

Expected ARC reflects the expected assets at 07/01/2016 assuming contributions were made according to the schedule and assets earned a return equal to 7.5%.

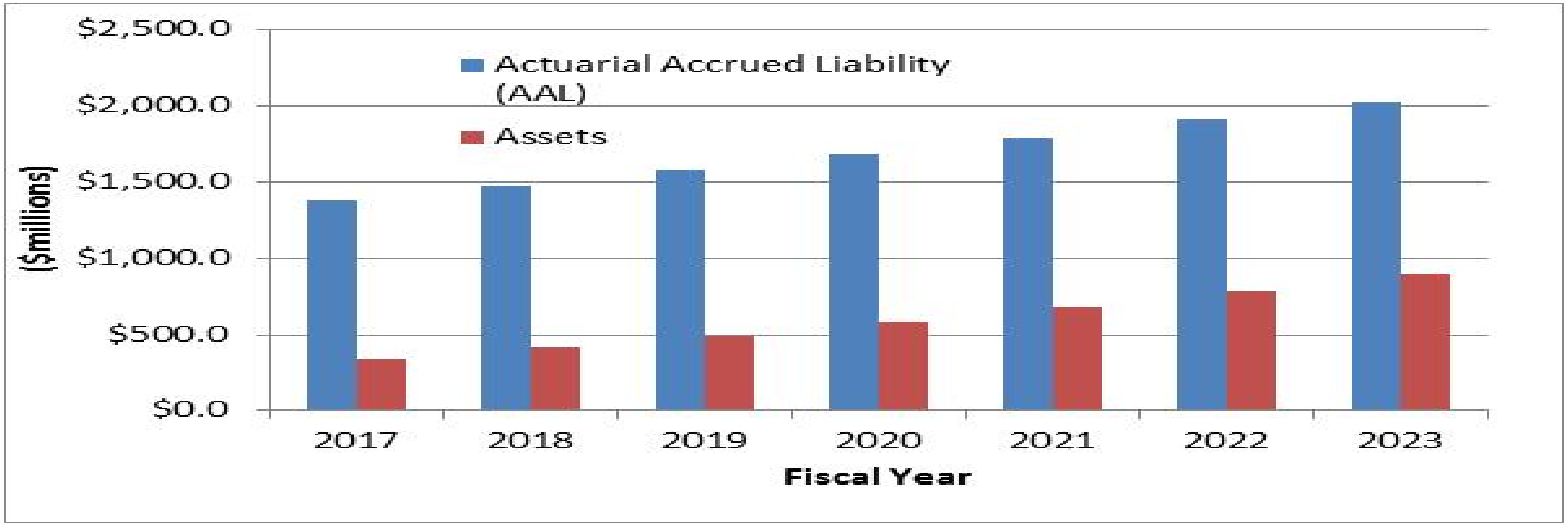
The projected value of the excise tax on high cost plans is impacted in the above figures. This adds 0.6% to the AAL and 0.9% to the ARC.

6 Year Projection – ARC, Total Contribution



	($ millions)						
Fiscal Year	2017	2018	2019	2020	2021	2022	2023
Discount Rate	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
ARC	$112.7	$110.0	$116.7	$123.7	$130.8	$138.1	$143.7
Total Contributions	$102.6	$110.0	$116.7	$123.7	$130.8	$138.1	$143.7

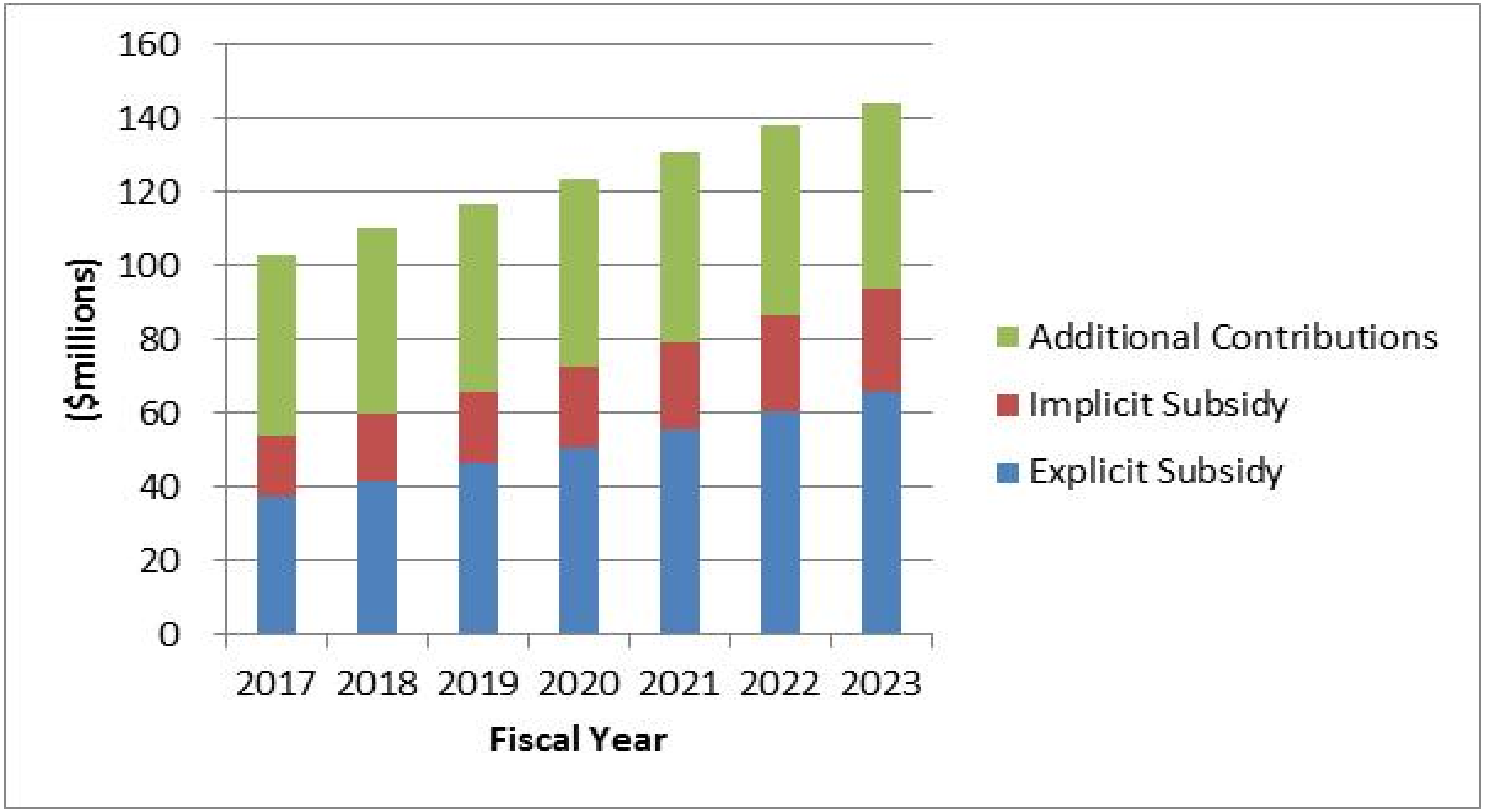
6 Year Projection – Assets and Liabilities



	($ millions)						
Fiscal Year	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Discount Rate	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Actuarial Accrued Liability (AAL)	$1,380.9	$1,476.3	$1,576.2	$1,680.7	$1,790.5	$1,905.7	$2,027.0
Assets	$334.9	$410.9	$493.9	$583.5	$680.3	$784.6	$896.9
% Funded	24.3%	27.8%	31.3%	34.7%	38.0%	41.2%	44.2%

6 Year Projection – Total Contributions

- Future annual payments based on valuation assumptions



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6-Year Projection – Allocation of Additional Contributions for Participating Agencies

Fiscal Year	2017	2018	2019	2020	2021	2022	2023
Discount Rate	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Entity	Full Funding	Full Funding	Full Funding	Full Funding	Full Funding	Full Funding	Full Funding
COUNTY: PUBLIC-SAFETY	$28,266.00	$24,149.85	$24,308.26	$24,528.09	$24,628.20	$24,616.47	$23,800.85
COUNTY: NON PUBLIC-SAFETY	$20,578.20	24,865.35	24,892.58	25,192.89	25,249.88	25,498.38	24,702.57
ASSESSMENT AND TAXATION	$0.00	0.00	0.00	0.00	0.00	0.00	0.00
CREDIT UNION	$78.90	31.02	32.59	34.67	35.73	35.05	37.84
HOUSING OPPORTUNITIES COMM	$1,130.40	1,069.80	1,112.64	1,119.36	1,125.86	1,122.44	1,124.43
REVENUE AUTHORITY	$177.30	153.61	154.26	164.53	164.85	183.81	175.35
STRATHMORE HALL	$97.40	63.20	75.92	76.51	78.32	78.37	87.93
VILLAGE OF FRIENDSHIP HEIGHTS	$24.20	79.17	50.75	50.19	49.62	49.21	47.34
WASHINGTON SUBURBAN T C	$8.60	0.00	0.00	3.76	3.54	3.27	2.69
Total	**$50,361.00**	**50,412.00**	**50,627.00**	**51,170.00**	**51,336.00**	**51,587.00**	**49,979.00**

- Shown in $ thousands
- The above additional contributions represent contributions over and above pay-go contributions and implicit subsidy contributions. The ARC is assumed to be fully funded – that is, pay-go contributions + implicit subsidy contributions + additional contributions = ARC
- Projections based on current funding policy.

6-Year Projection –
Future Fiscal Impact of Additional Contributions for Outside Agencies

Fiscal Year	2017	2018	2019	2020	2021	2022	2023
Discount Rate	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Agency	Full Funding	Full Funding	Full Funding	Full Funding	Full Funding	Full Funding	Full Funding
Montgomery County**	$50,361	$50,412	$50,627	$51,170	$51,336	$51,587	$49,979
MCPS**	$63,055	$74,192	$79,405	$83,659	$86,797	$88,729	$85,015
Montgomery College**	$1,524	$2,552	$2,845	$3,007	$3,120	$3,327	$3,319
M-NCPPC (MCG portion - 45%)**	$1,029	$1,048	$1,137	$1,199	$1,262	$1,325	$1,392
Subtotal - Tax Supported Agencies	$115,969	$128,204	$134,014	$139,035	$142,515	$144,968	$139,705
WSSC	$3,251	$55	$0	$0	$0	$0	$0
Total	**$119,220**	**$128,259**	**$134,014**	**$139,035**	**$142,515**	**$144,968**	**$139,705**

- Shown in $ thousands
- The above additional contributions represent contributions over and above pay-go contributions and implicit subsidy contributions. The ARC is assumed to be fully funded – that is, pay-go contributions + implicit subsidy contributions + additional contributions = ARC

** The contributions reflect total additional contributions updated based on the FY2017 proposed budget projection. Actual FY2017 budgeted contributions have been provided by the County.

Projections based on current funding policy.

Discussion