



# Overview of GASB 45 Results Valuation

## Date: July 1, 2014

November 19, 2014

# Agenda

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

# Valuation Results - Introduction

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- 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, 2014
- Last valuation - July 1, 2013

# Demographics

- Participant data:

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

| Number of Participants as of July 1, 2012 |                      |                        |                 |        |
|---|----------------------|------------------------|-----------------|--------|
|   | Actives <sup>1</sup> | Retirees and Survivors | Retiree Spouses | Total  |
| <b>Medical</b>                            | 9,511                | 4,713                  | 2,511           | 16,735 |
| <b>Prescription <sup>3</sup></b>          | 9,511                | 3,546                  | 2,014           | 15,071 |
| <b>Dental</b>                             | 9,511                | 5,051                  | 2,739           | 17,301 |
| <b>Life</b>                               | 9,511                | 5,092                  | N/A             | 14,603 |

<sup>1</sup> 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

<sup>2</sup> 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).

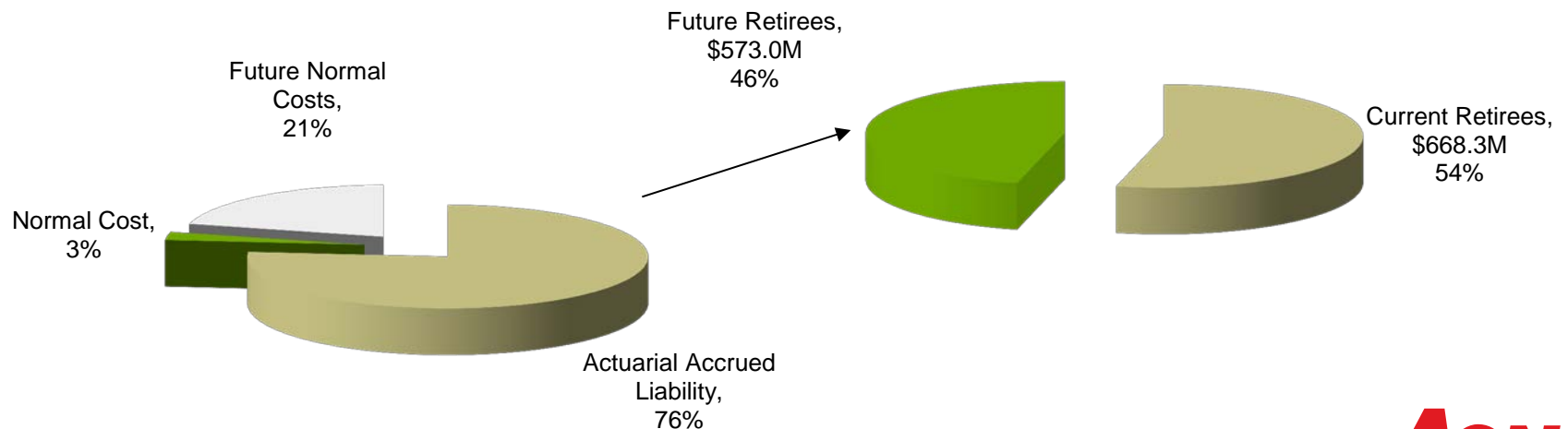
<sup>3</sup> The counts for retiree members with prescription drugs do not reflect the retiree members in the Kaiser or CareFirst Indemnity plans. Prescription drugs are not a separate election for these members.

# Valuation Results – Liabilities and Assets

|  | (\$ millions) |           |           |           |           |           |           |
|--|---------------|-----------|-----------|-----------|-----------|-----------|-----------|
|  | FY 2015       | FY 2016   | FY 2017   | FY 2018   | FY2019    | FY2020    | FY 2021   |
| <b>Discount Rate</b>                       | 7.50%         | 7.50%     | 7.50%     | 7.50%     | 7.50%     | 7.50%     | 7.50%     |
| <b>Present Value of Projected Benefits</b> | \$1,623.1     | \$1,686.8 | \$1,750.0 | \$1,813.7 | \$1,875.8 | \$1,935.7 | \$1,993.9 |
| <b>Actuarial Accrued Liability</b>         | \$1,241.3     | \$1,320.9 | \$1,404.6 | \$1,493.8 | \$1,587.3 | \$1,685.0 | \$1,788.4 |
| <b>Assets</b>                              | \$239.4       | \$303.6   | \$378.6   | \$459.3   | \$544.1   | \$633.4   | \$728.3   |

## Actuarial Accrued Liability (FY2015)

### Present Value of Projected Benefits (FY2015)



## Valuation Results – ARC, Contributions and NOO

|  | (\$ millions) |         |         |                      |
|--|---------------|---------|---------|----------------------|
|  | FY 2013       | FY 2014 | FY 2015 | FY 2016 <sup>4</sup> |
| <b>Annual Required Contributions (ARC)</b>     | \$132.4       | \$96.1  | \$107.1 | \$111.4              |
| Admin  | \$0.2         | \$0.2   | \$0.2   | \$0.2                |
| Normal Cost                                    | \$47.1        | \$34.8  | \$41.4  | \$44.5               |
| Amortization of UAAL                           | \$75.9        | \$54.4  | \$58.0  | \$58.9               |
| Interest to EOY                                | \$9.2         | \$6.7   | \$7.5   | \$7.8                |
| <b>Explicit Subsidy (“Pay-go”)<sup>1</sup></b> | \$36.3        | \$34.3  | \$39.2  | \$42.7               |
| <b>Implicit Subsidy</b>                        | \$15.5        | \$14.7  | \$16.8  | \$18.3               |
| <b>Additional Contributions<sup>2</sup></b>    | \$52.8        | \$59.4  | \$44.6  | \$50.4               |
| <b>Net OPEB Obligation (NOO)<sup>3</sup></b>   | \$429.1       | \$425.8 | \$439.5 | \$447.1              |

<sup>1</sup> 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.

<sup>2</sup> Actual contributions for FY 2013 and FY 2014 includes the combined subsidy and additional contribution. Budgeted contribution for FY 2015. Year 8 phase-in contributions for FY 2016.

<sup>3</sup> FY 2013 and FY 2014 provided by the County on November 4, 2014. Estimates for FY 2015 and FY 2016.

<sup>4</sup> Estimated – assumes no significant plan changes or population changes.

## Reconciliations – Actual vs. Expected Results

| Results as of July 1, 2014 (2015 Fiscal Year) (\$ millions) |                  |                |
|---|------------------|----------------|
|   | UAL              | ARC            |
| <b>Expected July 1, 2014 Results<sup>1</sup></b>            | \$935.4          | \$97.7         |
| <b>Actual July 1, 2014 Results</b>                          | <u>\$1,001.9</u> | <u>\$107.1</u> |
| <b>Difference</b>   | \$66.5           | \$9.4          |
| <b>Factors Contributing to Difference:</b>                  |                  |                |
| New Demographics and Experience                             | (\$8.3)          | \$0.8          |
| Asset (Gain)/Loss   | (\$13.0)         | (\$0.8)        |
| New Claims and Premiums                                     | \$131.9          | \$14.1         |
| New Medical Trend Rate Assumption                           | <u>(\$44.1)</u>  | <u>(\$4.7)</u> |
| <b>Total</b>  | <b>\$66.5</b>    | <b>\$9.4</b>   |

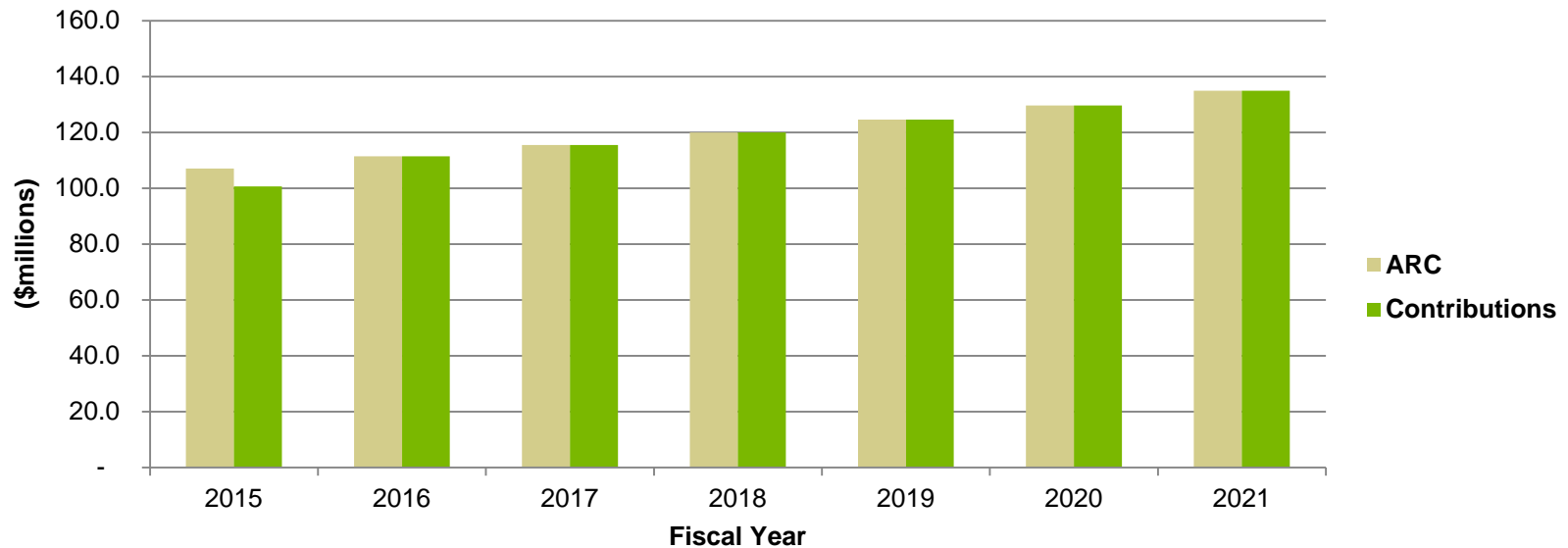
<sup>1</sup> Expected 2014 results based on the 07/01/2013 Valuation actuarially projected to 07/01/2014. i.e., results

- (a) assume no change in the population or assumptions from the 2012 Valuation,
- (b) reflect the expected increase in GASB OPEB costs due to employees accruing one additional year of service
- (c) also reflect the expected increase in costs because future benefits are now one year closer to being paid.

Expected ARC reflects the expected assets at 07/01/2014 assuming contributions were made according to the phase-in 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 and NOO

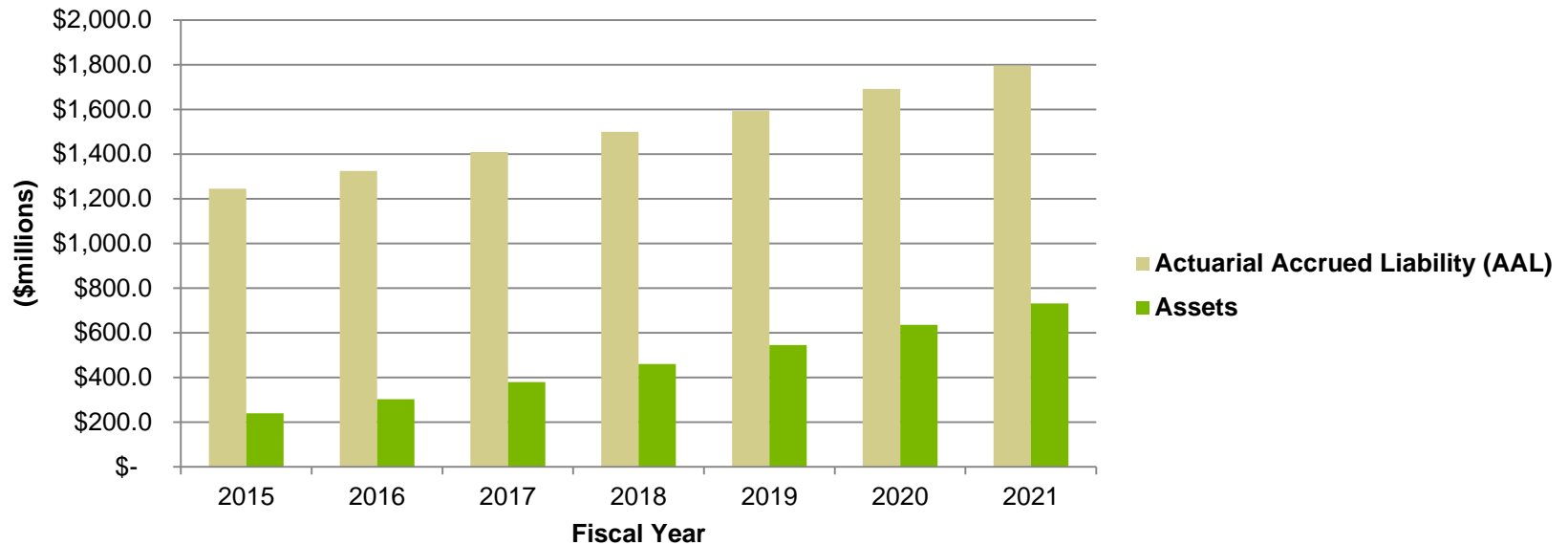


| (\$ millions)       |         |         |         |         |         |         |         |
|---------------------|---------|---------|---------|---------|---------|---------|---------|
| Fiscal Year         | 2015    | 2016    | 2017    | 2018    | 2019    | 2020    | 2021    |
| Discount Rate       | 7.50%   | 7.50%   | 7.50%   | 7.50%   | 7.50%   | 7.50%   | 7.50%   |
| ARC                 | \$107.1 | \$111.4 | \$115.5 | \$119.9 | \$124.6 | \$129.6 | \$135.0 |
| Total Contributions | \$100.6 | \$111.4 | \$115.5 | \$119.9 | \$124.6 | \$129.6 | \$135.0 |
| NOO                 | \$439.5 | \$447.1 | \$454.7 | \$462.5 | \$470.4 | \$478.4 | \$486.6 |

The GASB has released an exposure draft of proposed accounting rules that would impact FYE 2018 and beyond.



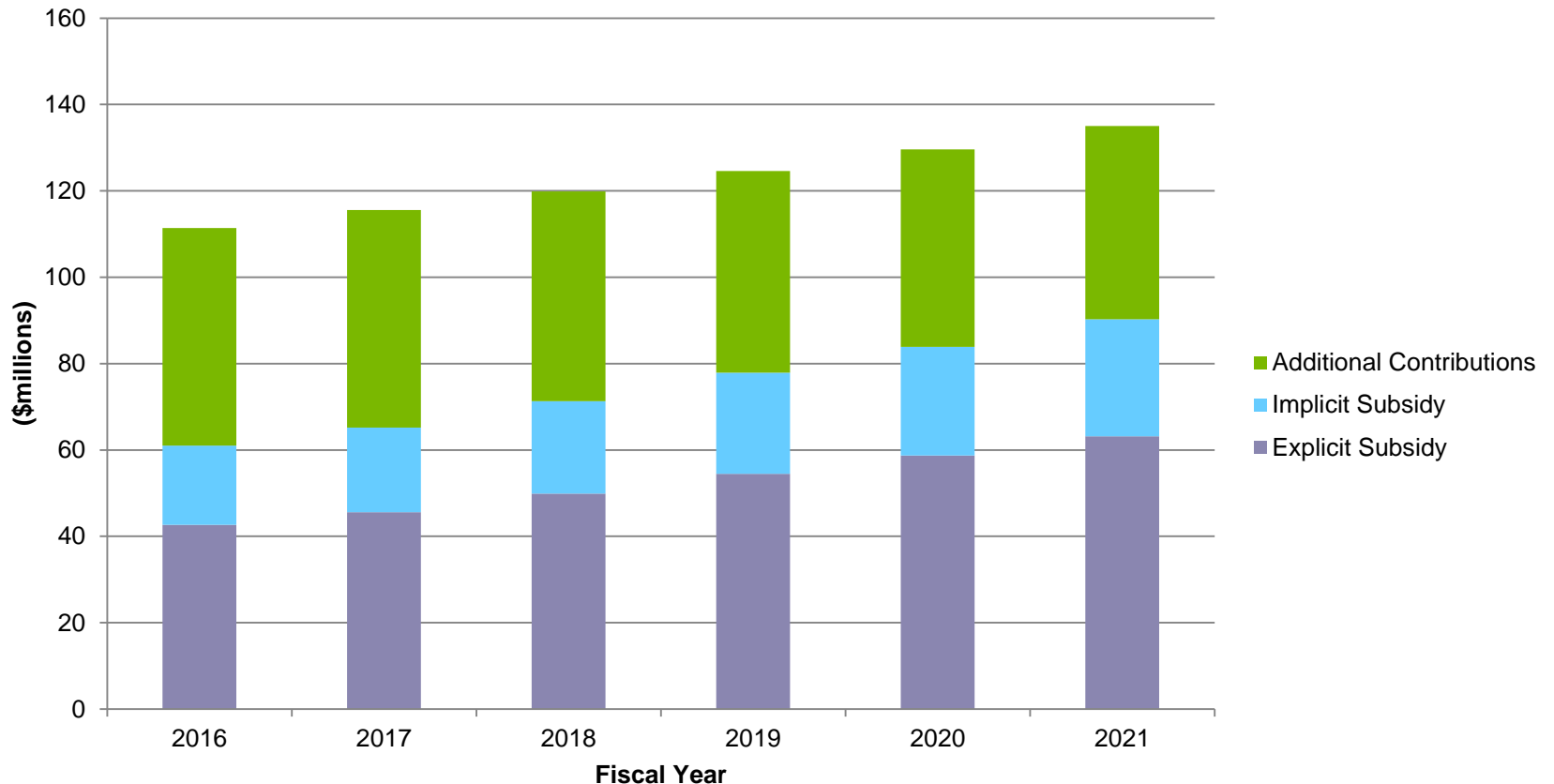
## 6 Year Projection – Assets and Liabilities



| (\$ millions)                     |            |           |           |           |           |           |           |
|-----------------------------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Fiscal Year                       | 2015       | 2016      | 2017      | 2018      | 2019      | 2020      | 2021      |
| Discount Rate                     | 7.50%      | 7.50%     | 7.50%     | 7.50%     | 7.50%     | 7.50%     | 7.50%     |
| Actuarial Accrued Liability (AAL) | \$1,241.30 | \$1,320.9 | \$1,404.6 | \$1,493.8 | \$1,587.3 | \$1,685.0 | \$1,788.4 |
| Assets                            | \$239.4    | \$303.6   | \$378.7   | \$459.3   | \$544.1   | \$633.4   | \$728.3   |
| % Funded                          | 19.3%      | 23.0%     | 27.0%     | 30.7%     | 34.3%     | 37.6%     | 40.7%     |

## 6 Year Projection – Total Contributions

- Future annual payments based on valuation assumptions



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

| Fiscal Year                   | 2016               | 2017               | 2018               | 2019               | 2020               | 2021               |
|-------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Discount Rate                 | 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       |
| COUNTY: PUBLIC-SAFETY         | \$28,697.00        | \$28,266.00        | \$27,625.00        | \$26,474.00        | \$25,716.00        | \$24,965.00        |
| COUNTY: NON PUBLIC-SAFETY     | \$20,154.50        | \$20,578.20        | \$19,572.70        | \$18,867.00        | \$18,659.80        | \$18,376.50        |
| ASSESSMENT AND TAXATION       | \$0.00             | \$0.00             | \$0.00             | \$0.00             | \$0.00             | \$0.00             |
| CREDIT UNION                  | \$82.10            | \$78.90            | \$74.80            | \$71.90            | \$69.10            | \$67.20            |
| HOUSING OPPORTUNITIES COMM    | \$1,140.40         | \$1,130.40         | \$1,075.30         | \$1,034.00         | \$1,009.70         | \$989.10           |
| REVENUE AUTHORITY             | \$179.70           | \$177.30           | \$167.70           | \$160.30           | \$156.00           | \$152.10           |
| STRATHMORE HALL               | \$99.30            | \$97.40            | \$92.60            | \$89.00            | \$86.50            | \$84.70            |
| VILLAGE OF FRIENDSHIP HEIGHTS | \$25.10            | \$24.20            | \$23.00            | \$22.10            | \$21.30            | \$20.80            |
| WASHINGTON SUBURBAN T C       | \$7.90             | \$8.60             | \$7.90             | \$7.70             | \$7.60             | \$7.60             |
| <b>Total</b>                  | <b>\$50,386.00</b> | <b>\$50,361.00</b> | <b>\$48,639.00</b> | <b>\$46,726.00</b> | <b>\$45,726.00</b> | <b>\$44,663.00</b> |

- Shown in \$ thousands
- The above additional contributions represent contributions over and above pay-go contributions and implicit subsidy contributions. FY16 is based on an 8-year phase-in schedule to fully fund the ARC. From FY15, the ARC is assumed to be fully funded – that is, pay-go contributions + implicit subsidy contributions + additional contributions = ARC
- Projections based on current accounting rules (GASB 45).

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

| Fiscal Year                       | 2016         | 2017         | 2018         | 2019         | 2020         | 2021         |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Discount Rate                     | 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 |
| Montgomery County**               | \$50,386     | \$50,361     | \$48,639     | \$46,726     | \$45,726     | \$44,663     |
| MCPS**                            | \$61,733     | \$63,055     | \$61,291     | \$58,956     | \$56,681     | \$54,353     |
| Montgomery College**              | \$1,428      | \$1,524      | \$1,582      | \$1,562      | \$1,536      | \$1,564      |
| M-NCPPC (MCG portion - 45%)**     | \$1,513      | \$1,029      | \$687        | \$262        | \$0          | \$0          |
| Subtotal - Tax Supported Agencies | \$115,060    | \$115,969    | \$112,199    | \$107,506    | \$103,943    | \$100,580    |
| WSSC                              | \$3,613      | \$3,251      | \$2,773      | \$2,241      | \$1,807      | \$1,271      |
| Total                             | \$118,673    | \$119,220    | \$114,972    | \$109,747    | \$105,750    | \$101,851    |

- Shown in \$ thousands
- The above additional contributions represent contributions over and above pay-go contributions and implicit subsidy contributions. FY16 is based on an 8-year phase-in schedule to fully fund the ARC. From FY15, 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 FY2015 proposed budget projection (FY15-20 OPEB String for MCG Proprietary Funds Based on 2013 Valuation Results with EGWP - Final.xls). Actual FY2015 budgeted contributions have been provided by the County.

Projections based on current accounting rules (GASB 45).