



# Montgomery County Government

Overview of GASB 45 Results Valuation

Date: July 1, 2012

June 18, 2013

**AON** Hewitt

# Agenda

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- Review Valuation Results
- Reconciliation of Actual vs. Expected
- 6 Year Projections
- EGWP
- Proposed GASB Changes Impact on 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, 2012
- Last valuation - July 1, 2010

# Demographics

## ■ Participant data:

Number of Participants as of July 1, 2012					
	Actives <sup>1</sup>	Retirees and Survivors	Retiree Spouses <sup>2</sup>		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

Number of Participants as of July 1, 2010					
	Actives <sup>1</sup>	Retirees and Survivors	Retiree Spouses	Retiree Dependents	Total
<b>Medical</b>	9,624	4,433	2,498	1,152	17,707
<b>Prescription <sup>3</sup></b>	9,624	3,208	1,930	983	15,745
<b>Dental</b>	9,624	4,704	2,688	1,196	18,212
<b>Life</b>	9,624	4,881	N/A	N/A	14,505

<sup>1</sup>We assumed that 87% (88% at 7/1/2010) 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.

# Key Assumption Changes

	Before Change	After Change
<b>Discount Rate</b>	6.00%	7.50%
<b>Payroll Growth</b>	4.25%	3.00%
<b>Participation:</b>	88%	87%
<b>Trends<sup>1</sup></b>		
Initial pre-65 / post-65 / Rx	9.5% / 7.5% / 8.0%	9.0% / 6.5% / 7.5%
Ultimate pre-65 / post-65 / Rx	5%	5%
Longest # of Years to Reach Ultimate Rate	10	9
<b>Claims<sup>2</sup></b>	<b><u>At Age 62</u></b>	<b><u>At Age 67</u></b>
Increase from prior valuation	1.4%	10.2%
<b>Contributions<sup>2</sup></b>	<b><u>Pre-65</u></b>	<b><u>Post-65</u></b>
Increase from prior valuation	7.1%	10.0%

<sup>1</sup> Separate trends also exist for dental plan and Kaiser and indemnity health plans.  
Trends shown are underlying assumptions, prior to adjustment for excise tax impact

<sup>2</sup> Illustration assumes blending between plans based on future plan election assumption.

# Assumption Changes – Assumptions

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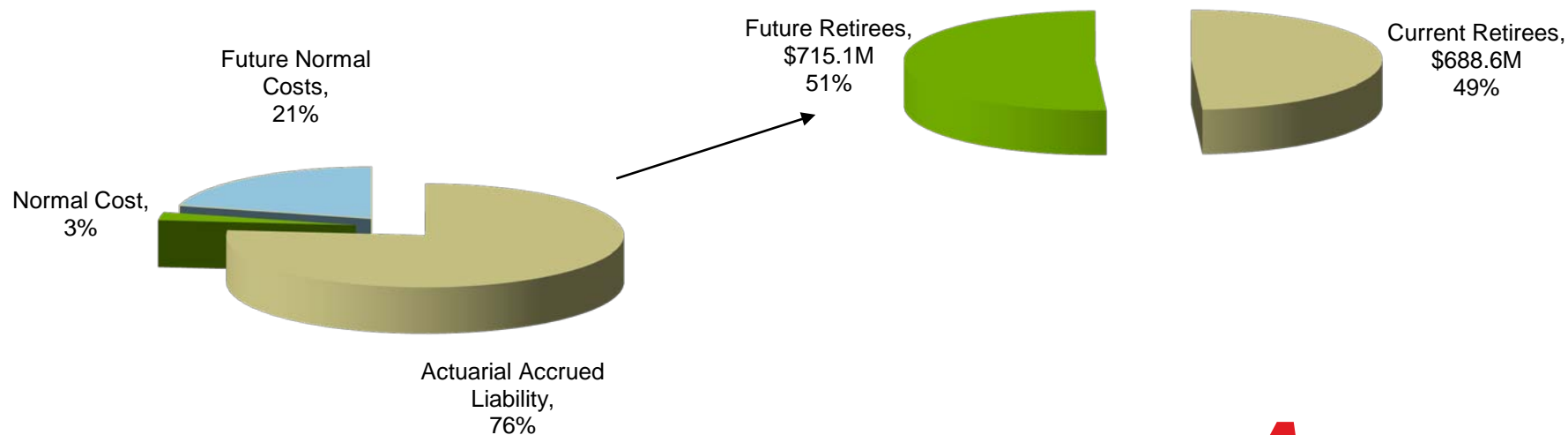
- Core demographic assumptions mostly unchanged
- Experience study completed just prior to last measurement
- Mortality
  - projected 30 years from valuation date
  - Two additional years of improvement from last measurement date
- Rates of Retirement / Withdrawal
  - Updated assumptions for GRIP/RSP participants
  - Based on GRIP assumptions used in the pension valuation
  - No valuation of RSP retirement
    - Same eligibility for retiree health and lack of features like early retirement subsidies lead to expectation that RSP experience will be similar to GRIP experience

# Valuation Results – Liabilities and Assets

	(\$ millions)						
	FY 2013	FY 2014	FY 2015	FY 2016	FY2017	FY2018	FY 2019
<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>	\$1,834.1	\$1,918.0	\$2,001.2	\$2,083.2	\$2,164.3	\$2,244.4	\$2,323.3
<b>Actuarial Accrued Liability</b>	\$1,403.7	\$1,505.8	\$1,611.3	\$1,719.9	\$1,832.2	\$1,949.0	\$2,070.2
<b>Assets</b>	\$92.6	\$154.3	\$237.6	\$335.7	\$438.8	\$547.6	\$661.9

## Actuarial Accrued Liability (FY2013)

### Present Value of Projected Benefits (FY2013)



# Valuation Results – ARC, Contributions and NOO

	(\$ millions)			
	FY 2011	FY 2012	FY 2013	FY 2014 <sup>4</sup>
<b>Annual Required Contributions (ARC)</b>	\$147.6	\$156.2	\$132.4	\$137.4
Admin	\$0.2	\$0.2	\$0.2	\$0.2
Normal Cost	\$67.7	\$71.1	\$47.1	\$49.4
Amortization of UAAL	\$71.4	\$76.1	\$75.9	\$78.3
Interest to EOY	\$8.3	\$8.8	\$9.2	\$9.6
<b>Explicit Subsidy (“Paygo”)<sup>1</sup></b>	N/A	N/A	\$36.3	\$40.9
<b>Implicit Subsidy</b>	N/A	N/A	\$15.5	\$17.5
<b>Additional Contributions<sup>2</sup></b>	\$44.1	\$67.9	\$52.8	\$69.2
<b>Net OPEB Obligation (NOO)<sup>3</sup></b>	\$287.5	\$380.7	\$415.0	\$431.8

<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 paygo costs.

<sup>2</sup> Actual contributions for FY 2011 and FY 2012 includes the combined subsidy and additional contribution. Budgeted contribution for FY 2013. Year 7 phase-in contributions for FY 2014.

<sup>3</sup> FY 2011 and FY 2012 from CAFR. Estimates for FY 2013 and FY 2014.

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



# Reconciliations – Actual vs. Expected Results

RESULTS AS OF July 1, 2012 (2013 Fiscal Year) (\$ millions)		
	AAL	ARC
<b>Expected July 1, 2012 Results<sup>1</sup></b>	\$1,985.7	\$163.6
<b>Actual July 1, 2012 Results</b>	<u>\$1,403.7</u>	<u>\$132.4</u>
<b>Difference</b>	(\$582.0)	(\$31.2)
<b>Factors Contributing to Difference:</b>		
New Demographics and Experience	(\$39.8)	(\$0.8)
New Claims and Premiums	(\$186.3)	(\$16.4)
New GRIP & RSP Assumptions	(\$61.8)	(\$9.6)
Change in Participation Assumption	(\$9.6)	(\$1.1)
New Trend Rates	\$56.6	\$6.0
Healthcare Reform Excise Tax	\$24.8	\$3.0
New Discount Rate	<u>(\$365.8)</u>	<u>(\$12.1)</u>
<b>Total</b>	<b>(\$582.0)</b>	<b>(\$31.2)</b>

<sup>1</sup> Expected 2012 results based on the 07/01/2010 Valuation actuarially projected to 07/01/2012. i.e., results

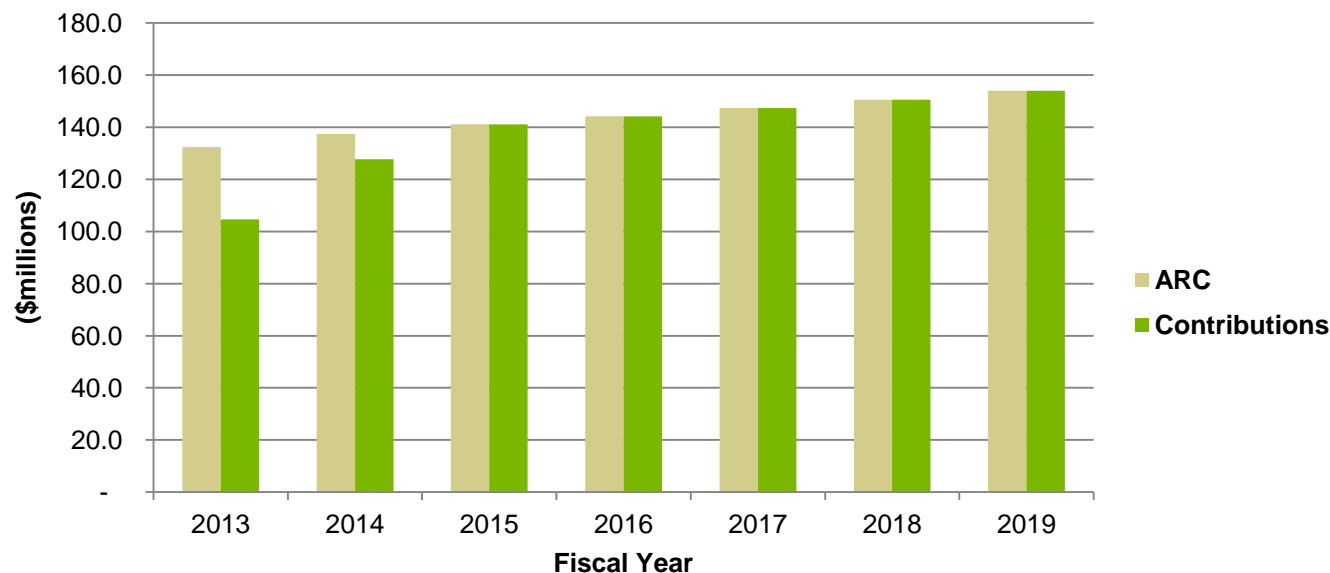
(a) assume no change in the population or assumptions from the 2010 Valuation,

(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.

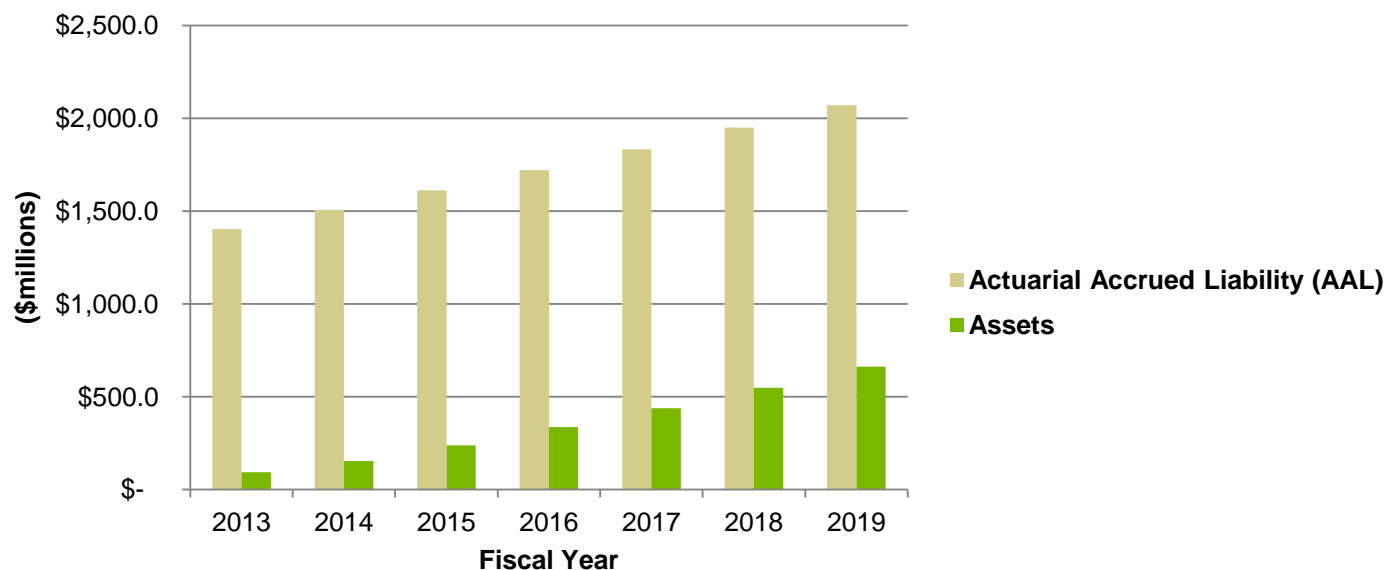
Expected ARC reflects the expected assets at 07/01/2012 assuming contributions were made according to the phase-in schedule and assets earned a return equal to 7.5%.

## 6 Year projection – ARC, Total Contribution and NOO



(\$ millions)							
Fiscal Year	2013	2014	2015	2016	2017	2018	2019
Discount Rate	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
ARC	\$132.4	\$137.4	\$141.1	\$144.2	\$147.4	\$150.6	\$154.0
Total Contributions	\$104.6	\$127.7	\$141.1	\$144.2	\$147.4	\$150.6	\$154.0
NOO	\$415.0	\$431.8	\$439.2	\$446.7	\$454.3	\$462.1	\$469.9

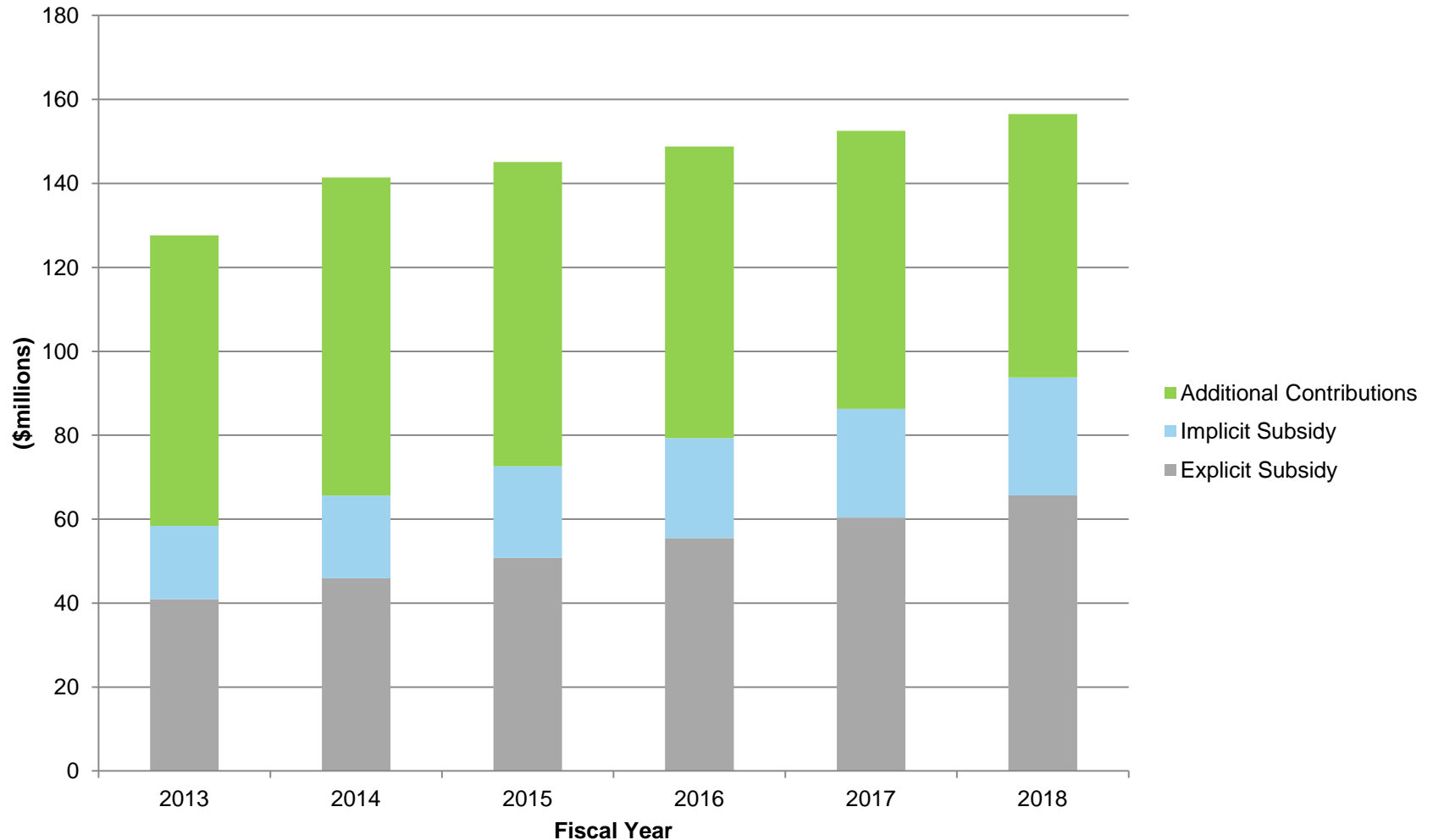
# 6 Year Projection – Assets and Liabilities



(\$ millions)							
Fiscal Year	2013	2014	2015	2016	2017	2018	2019
Discount Rate	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Actuarial Accrued Liability (AAL)	\$1,403.7	\$1,505.8	\$1,611.3	\$1,719.9	\$1,832.2	\$1,949.0	\$2,070.2
Assets	\$92.6	\$154.3	\$237.6	\$335.7	\$438.8	\$547.6	\$661.9
% Funded	6.6%	10.2%	14.7%	19.5%	23.9%	28.1%	32.0%

## 6 Year projection – Total Contributions

- Future annual payments based on valuation assumptions



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

Fiscal Year	2014	2015	2016	2017	2018	2019
Discount Rate	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Entity	Year 7 Phase-In	Full Funding	Full Funding	Full Funding	Full Funding	Full Funding
COUNTY: PUBLIC-SAFETY	\$28,900.0	\$32,441.0	\$31,572.0	\$30,666.0	\$29,845.0	\$28,355.0
COUNTY: NON PUBLIC-SAFETY	\$36,845.1	\$41,035.8	\$39,760.0	\$38,794.6	\$37,232.4	\$35,416.5
ASSESSMENT AND TAXATION	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
CIRCUIT COURT JUDGES	\$113.5	\$127.4	\$124.2	\$121.4	\$117.4	\$112.8
CREDIT UNION	\$154.6	\$173.7	\$169.2	\$164.4	\$158.0	\$150.9
DISTRICT COURT EMPLOYEES	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
DIST 100% TO ST	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
DIST EE-EE, ER-INS FUND	\$21.9	\$24.6	\$24.0	\$23.5	\$22.7	\$21.8
DIST ST-ER,CTY-EE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
HOUSING OPPORTUNITIES COMM	\$2,557.6	\$2,875.2	\$2,802.2	\$2,731.1	\$2,633.6	\$2,523.1
REVENUE AUTHORITY	\$369.4	\$414.3	\$402.5	\$391.7	\$376.1	\$358.9
STRATHMORE HALL	\$197.1	\$221.2	\$215.2	\$209.5	\$201.7	\$192.8
VILLAGE OF FRIENDSHIP HEIGHTS	\$49.8	\$56.2	\$54.8	\$53.3	\$51.5	\$49.5
WASHINGTON SUBURBAN T C	\$17.0	\$18.6	\$17.9	\$17.5	\$16.6	\$15.7
<b>Total</b>	<b>\$69,226.0</b>	<b>\$77,388.0</b>	<b>\$75,142.0</b>	<b>\$73,173.0</b>	<b>\$70,655.0</b>	<b>\$67,197.0</b>

- Shown in \$ thousands
- The above additional contributions represent contributions over and above paygo contributions and implicit subsidy contributions. FY14 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, paygo contributions + implicit subsidy contributions + additional contributions = ARC.

# “EGWP”

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## Description

- Convert Medicare retiree prescription drug coverage to a Medicare Part D benefit under an Employer Group Waiver Program (EGWP) with secondary coverage to protect benefit design for retirees under a Wrap

## Why

- Maximizes the receipt of prescription drug subsidies from the federal government and pharmaceutical manufacturers
- Replaces the receipt of Retiree Drug Subsidy (RDS) in effect since 2006
- Over last 7 years MCG has received over \$12 million in RDS from the federal government
- Will result in more subsidy than RDS approach
- Allows MCG to recognize subsidies in the GASB OPEB liability and annual cost (unlike RDS approach)

## Impact

- Preserves the current plan design for retirees
- Increased and targeted communication with retirees on drug usage
- Some retirees eligible for low income subsidies under the Part D program will pay less for coverage
- High income retirees will see additional premiums for Rx coverage just as they do now for Medicare Part B coverage

# “Proposed GASB Changes Impact on Projections”

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## Description

- The GASB Board has come out with GASB 67 & 68 for pensions with new costs and liabilities for the income statement and balance sheet. Similar changes are expected for OPEB plans

## When

- Exposure Draft is due out for the plan next month and for the employer early 2014
- Expectations will be effective for fiscal year end 2016

## Impact

- Unstable/volatile pension expense/(Income) and balance sheet liability
- Separation of expense and contribution
- More disclosure
- NOO will be replaced by the unfunded liability
- Not just a foot note, but will be disclosed in the face of the financial statement alongside other liabilities such as outstanding bonds and long-term leases
- Discount rate change for underfunded plans